FINANCIAL INCLUSION AND THEIR IMPACT ON ECONOMIC GROWTH IN INDIA

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Abstract:

The essence of financial inclusion is to ensure access to a wide range of financial services and timely and adequate credit to all individuals and businesses at affordable prices irrespective of their net worth and size. Financial inclusion is proven to aid the economy to reduce the gap of inequality among people thereby paving way to eliminate poverty. Besides the fact that the Reserve Bank of India has been continuously taking steps to create awareness among the public about the affordable financial services available to them, a huge leap was taken towards financial inclusion with the introduction of the Pradhan Mantri Jan-Dhan Yojana (PMJDY) programme which was launched on 28th August 2014, by which the number of people with bank accounts grew from 53% in 2014 to 80% in 2017. However, by the end of the financial year 2015 reports showed that 57.9% of such newly opened accounts carried zero balance, the main reasons being lack of financial literacy and lack of easy accessibility of banking outlets. Thus, this paper displays the various measures and steps taken by RBI towards financial inclusion and also aims to measure the impact of the three indicators of financial inclusion namely – a) Credit-deposit Ratio b) Number of new bank branches opened and c) Growth of banking outlets in villages on the Indian GDP. Secondary data used in the study has been gathered from the official websites of the RBI, Open Government Data Platform India. The statistical tool used to analyse the data is Regression analysis.

Keywords: *Financial inclusion, Banks, PMJDY, GDP, Credit Deposit Ratio.*

1.1. INTRODUCTION

Financial inclusion is the process of providing access to timely financial services to individuals belonging to all sectors of the population and also businesses irrespective of their size and volume at affordable prices. It is an intentional attempt to bring the unbanked people into the formal banking system. It is evident from various studies that financial inclusion helps in the inclusive growth of the economy thereby resulting in reduction of inequalities and poverty among the people.

The term ‘financial inclusion’ was used for the first time in the Annual Policy Statement of 2005 – 06 by Y.Venugopal Reddy, the then Governor of the RBI. Later the concept gained importance and came to be widely used in India as well as many other countries. The policy statement revealed that a large portion

of the population was excluded from the formal banking system. Then onwards, the RBI began to urge banks to include FI as a business objective. The Committee on Financial Inclusion 2008 headed by the Chairman - Dr.C.Rangarajan insisted that financial inclusion should also make ways to provide access to credit and limited overdraft facilities apart from opening of no-frills accounts as a result of which FI entered the banking sector as a policy initiative. The latest financial inclusion plan – The Pradhan Mantri Jan Dhan Yojana (PMJDY) launched on 28th August, 2014 had a great impact in terms of opening of bank accounts. Around 2 crore bank accounts were opened on the first day of the launch of the programme.

1.2. REVIEW OF LITERATURE

The results of the study conducted by **Dr.N.Rajasekaran** (2018), indicated that the initiatives taken by the Government of India and the Reserve Bank of India had reached the majority of the financially excluded people and also revealed that the banks had shown much importance to opening of bank accounts rather than to provide fundamental banking services like issue of loans to the lower sections of the people. **Paramjit Sujlana** and **Chhavi Kiran** (2018) conducted a study which revealed that India was in a progressive stage in terms of branch penetration. **Pradhnya P. Meshram** and **Abhijeet Randad** (2015) in their study, analysed the awareness of the banking customers regarding the financial inclusion initiatives and revealed that the level of awareness had been very low. They also suggested that the mere opening of bank accounts was not sufficient and the financial services must be made simpler to be easily accessible by the customers. The results of the studies conducted by **Supravat Bagli** and **Papita Dutta** (2012) and **Sarma** and **Pais** (2008), revealed a strong positive association between financial inclusion and human development and the levels of financial inclusion in the Indian states had a low mean and high disparity.

1.3. NEED FOR THE STUDY

Despite the fact that the RBI had been persistently taking active steps towards financial inclusion with the implementation of various measures like the introduction of 'no-frills' account, Kisan Credit Cards (KCC), General Credit Cards (GCC) and the PMJDY programme, a question arises if the measures have actually benefitted the country. Thus this study aims to determine the impact of financial inclusion indicators on India's GDP.

1.4. OBJECTIVES OF THE STUDY

1. To examine the various measures and steps taken by the RBI towards financial inclusion.
2. To study the impact of financial inclusion indicators on the Gross Domestic Product.

1.5. RESEARCH METHODOLGY

The study is based on secondary data which has been obtained from various monthly and annual reports of the Reserve Bank of India (RBI) and the Open Government Data Platform India. The statistical tool used to analyse the data is Multiple Regression model. The period of study is 6 years from 2011-2012

to 2016-2017. The statistical tool used to analyse the data is Multiple Regression model, where Gross Domestic Product (GDP) is taken as a dependent variable and Credit Deposit Ratio (CDR), number of new bank branches opened and growth of banking outlets in villages as independent variables.

$$Y = a + b1X1 + b2X2 + b3X3$$

where, Y = Gross Domestic Product (GDP)

X1 = Credit Deposit Ratio (CDR)

X2 = Number of new bank branches opened

X3 = Growth of banking outlets in villages

Hypothesis of the Study:

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

$H_0$1: There is no significant impact of financial inclusion indicators on the Gross Domestic Product.

H_A1: There is a significant impact of financial inclusion indicators on the Gross Domestic Product.

1.6. FINANCIAL INCLUSION - MEASURES AND PROGRAMMES

The RBI and the Government have launched various measures and programmes to expand the financial inclusion in India. The following are the main financial inclusion measures and programmes launched by the Government of India.

- **Basic Savings Bank Deposit Account (BSBDA):**

  Until 2010, the BSBDA was initially called "no-frills" account which was launched by the RBI as a first major step towards financial inclusion. The BSBDA is a bank account with no restrictions on the minimum balance and with limited common facilities such as deposit and withdrawal of cash from bank branches and ATMs, credit or receipt of money through electronic payment systems, deposit or collection of cheques, etc.

- **Simplified KYC Norms:**

  The 'Know Your Customer' regulation was introduced by the Reserve Bank of India in the year 2002. It is a regulation that all financial institutions must perform to identify their customers and discover all relevant information. Since 2010, the RBI has been taking steps to simplify the regulations with a view to ease the opening of bank accounts for a common man. The simplifications are necessary for a country like India where the documents and proofs are not with many.

- **Kisan Credit Cards (KCC) and General Credit Cards (GCC):**

  The issue of credit cards to the underprivileged was another main objective of Financial Inclusion Plan. Kisan Credit Cards were issued to help small farmers to get easy credits from banks.

The General Credit Card scheme benefits the individuals in the non-farming sector to procure credit from the banks and helps them increase cash flow to their businesses.

- **RuPay Debit Cards:**

In 2012, the National Payments Corporation of India (NPCI) lunched the RuPay credit cards on March, 2012. The RuPay cards were issued to all the account holders under the Pradhan Mantri Jan Dhan Yojana (PMJDY).

- **Financial Literacy and Credit Counselling Centres:**

Financial illiteracy is one of the main barriers to financial inclusion and in order to eradicate financial illiteracy, in 2007 the Working Group to Examine the Procedures and Processes of Agricultural Loans (Chairman: Shri C. P. Swarnkar), appointed by Reserve Bank Reserve Bank of India, recommended that banks should consider opening of counseling centres. In 2009, over 135 credit counseling centres were opened in various states. The FLCCC provides financial counseling to people through face-to-face interactions and also through e-mail, mobile, fax, etc.

- **Financial Inclusion Plan:**

The Financial Inclusion Plan is a financial inclusion measure designed by the Reserve Bank of India, which was implemented in two phases 2010-13 and 2013-16 with a view to provide banking services in unbanked villages. All domestic Scheduled Commercial Banks (SCBs) were advised to make Financial Inclusion Plans (FIPs) as an integral part of their business.

- **Direct Benefit Transfer:**

The program was launched on 1st January, 2013 and it attempts to change the mechanism of transferring subsidies provided by the Government of India. The program enables transfer of government subsidies directly into the bank accounts of beneficiaries without any leakage and frauds. The launch of the program has enhanced financial inclusion and also enabled to retain people in their newly opened accounts.

- **Unified Payments Interface:**

It is a digital payment system developed by the National Payments Corporation of India (NPCI), introduced on 11th April, 2016 that merges multiple bank accounts of a user into a single account. The Unified Payments Interface is regulated by the Reserve Bank of India. It provides several banking features like balance enquiry, transfer and receive money, transaction history, etc.

- **Aadhaar Enabled Payment System:**

The Aadhaar Enabled Payment System (AEPS) developed by the National Payments Corporation of India (NPCI), helps the users to use their aadhaar number to get access to their aadhaar enabled bank account and perform basic banking functions.

❖ **BHIM Mobile Application:**

Bharat Interface for Money (BHIM) is a mobile application developed by National Payments Corporation of India (NPCI), based on the Unified Payment Interface (UPI). It was launched on 30th December, 2016 by Prime Minister Narendra Modi. The application allows users to transfer money instantly between bank accounts of any two parties.

1.7. DATA ANALYSIS

TABLE NO.1.1

VARIABLES OF THE STUDY

YEAR	GDP (`)	CREDIT DEPOSIT RATIO	NO. OF NEW BANK BRANCHES OPENED	GROWTH OF BANKING OUTLETS IN VILLAGE (%)
2011-12	8391691	78.6	6918	56.4
2012-13	9388876	79.1	7757	47.7
2013-14	10472807	78.9	11315	43
2014-15	10522686	78.3	8598	44.3
2015-16	11357529	78.2	6986	5.9
2016-17	12165481	73.03	4830	2

The above table 1.1 shows the variables used in the study. The GDP, Credit The Reserve Bank of India measures the financial inclusion using the three indicators, namely – a) Credit-deposit Ratio b) Number of new bank branches opened and c) Number of banking outlets in villages.

TABLE NO.1.2

Results of Regression Analysis: Model Summary

R	R Square	Adjusted R Square	F	Sig.	Durbin-Watson
0.971	0.943	0.858	11.066	0.084	2.651

The above table 1.2 indicates the model summary of Regression analysis carried out through SPSS. The result of the model shows that the value of R is 0.971 which indicates a high correlation between dependent (GDP) and independent variables. The value of R square is 0.943 and adjusted R square is 0.858. The acceptable value of the Durbin Watson test is between 1 and 3 and the model summary displays the value of Durbin-Watson statistic - 2.651, which reveals that there is no autocorrelation problem.

TABLE NO.1.3

Regression Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	28836481.35	12017196.93		2.400	.138
CDR	-247470.761	165286.428	-.423	-1.497	.273
No. Of New Bank Branches Opened	318.253	147.667	.508	2.155	.164
Growth Of Banking Outlets In Village	-50850.296	14142.156	-.873	-3.596	.069

a. Dependent Variable: GDP

The above table 1.3 illustrates the results of Regression analysis for GDP and financial inclusion indicators, it is to be noted that financial inclusion variables include Credit Deposit Ratio, number of new bank branches opened and growth of banking outlets in villages. Results of Multiple Regression analysis reveal that the beta value of number of Cash Deposit Ratio is -247470.761, which indicates a negative impact on GDP. The p value is 0.273, which is more than 0.05 at 5% level of significance, which indicates that there is a statistically insignificant impact on GDP. It further shows that the beta value of number of new bank branches opened is 318.253 and p value is 0.273 which indicates a positive but insignificant impact on GDP. Moreover the beta value of growth of banking outlet in villages shows -50850.296 and p value is 0.069 which indicates negative insignificant impact on GDP as the p value is more than 0.05. Thus, the alternative hypothesis is rejected and the null hypothesis is accepted. Therefore, the study finds that there is no significant impact of financial inclusion indicators on the Gross Domestic Product.

The following Regression equation has been obtained from the analysis.

$$Y = 28836481.35 - 247470.761X1 + 318.253X2 - 50850.296X3$$

1.8. LIMITATION OF THE STUDY

1. The time period taken for the study is 2011 – 2017 and so the results may not pertain to the current scenario.

1.9. CONCLUSION

Financial inclusion benefits the people to a large extent. The financial services help them to better plan and manage their financial emergencies and maintain a good flow of cash. However, the study found positive insignificant impact of number of new bank branches opened on the Gross Domestic Product. Whereas, negative insignificant impact of Credit Deposit Ratio and Growth of Banking Outlets in Villages on Gross Domestic Product has been found. Hence, it is concluded that although the Reserve Bank of India

has been taking immense financial inclusion initiatives, the indicators of financial inclusion does not have a strong impact on the Gross Domestic Product of the country.

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