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Present Status of Financial Inclusion in India

Abstract

Financial inclusion has become the most important subject studied by many of the researcher, policy makers and economists. The finance has always been considered as the life blood of all economic unit. The financial inclusion includes the process of providing cheap loans and financial assistance or banking services to every constituent of our society, especially economically backward people. The objective of this paper is to study the major determinants of financial inclusion and to compute the index of financial inclusion that would comprehensively analyses the impact of multi-dimensional variables of financial inclusion with specific reference to India, using the latest available data. The study reveals a good sign for Indian economy for FII index. It has got a position of high financial index in 2018 from low financial index in 2004, 2008 and 2009.

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Introduction

As the Indian economy is a highly populated and liberalized economy. There is a lot of problems in front of Indian government like-poverty, poor skill and scarcity of the resources especially in rural areas. As per the census data of 2011, India had a rural population of 21 crore and urban population of 5 Crore. Therefore, Indian government has decided to provide essential financial services like credit, micro insurance, savings and remittance and to coordinate action amongst the banks, the government and related agencies to facilitate access to bank accounts, for the purpose of sustaining the livelihood of all rural person over 2,000 by March 2012. This process of providing cheap loans and financial assistance or banking services to every constituent of our society, especially economically backward people is known as the term financial inclusion that can facilitate many people to come out of the abject poverty conditions.

According to the committee on Financial Inclusion, Chairman: Dr. C. Rangarajan, 'the Financial inclusion may 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.

Initiatives taken by Indian Government

There are varieties of initiatives has been taken by Indian government to achieve the target of financial inclusion. They are:

1. No frills account
2. LBS – Lead banking scheme
3. BSBDA – Basic savings bank deposit account
4. PMJDY – Pradhan Mantri Jan Dhan Yojana
5. Business correspondent system

No Frills Account

It was issued by a Reserve bank of India in the year 2012. This is a basic banking account where the account holder need to keep a very low balance or minimum balance of zero by which more person are interested to get this opportunity without blocking any money to the accounts.

Lead Banking Scheme

This scheme envisages the lead role for an individual bank i.e. private banks as well as public banks in which the lead banks act as a point of contact. The main purpose of this scheme is to increase the flow of agriculture, small-scale industries and various other economic services by coordinating with the credit institutions which perform towards districts.

Basic Savings Bank Deposit Account

This includes many services like deposit and withdrawal of cash at the bank branch, ATM card or ATM cum debit card. The electronic payment services or receipt of money by means of Cheque.

PMJDY – Pradhan Mantri Jan Dhan Yojana

'Mera Khata – Bhagya Vidhata' is the main slogan of this scheme that means my bank account is my god. This scheme is provided for the fifty thousand plus overdraft facilities for accounts which are linked with Aadhar card.

Business Correspondent System

It includes the bank representatives to carry out banking tasks for which they get a commission from the bank for every transaction made by them. The bank representatives individually go to the allowed areas to them and they will help to villagers to open their bank account and perform regular transactions.

Aim of the Study

To know the present status of Financial Inclusion.

Review of Literature

Many authors in the past have been able to measure the access to formal sources of finance of financial inclusion index to improve the poverty alleviation.

According to C. Rangarajan, Chairman and Ex- Governor RBI, Government of India, Committee on Financial Inclusion "The Indian country is moving to a higher growth trajectory. In order to sustain and accelerate this growth momentum, we need to ensure increase participation of the rural population especially, economically weak segments by providing them the easy access the banking and finance services. Previous Financial inclusion excluded these segments of the population is a critical part of this process of inclusion"

Bell and Rousseau (2001) have empirically observed that financial intermediaries have influenced the economic performance of India. Eastwood and Kohli (1999) have found that directed lending programs and branch expansion programs have enhanced small scale industrial output. The growth of informal sources of credit i.e. the exploitative money lenders can be reduced by a n inclusive financial system.

Binswanger and Khandker (1995) established that rural poverty is significantly reducing and non-agricultural employment is significantly increasing through Indian Rural expansion programs.

Hundekar (2017) found that there is still a wider scope for financial inclusion in the country to promote economic growth. Sing the secondary data, this study is an attempt to analyse the present status of financial inclusion in India. Various initiatives are being studies such as KCC, GCC =, NFAs, etc.

The need of financial inclusion is very well understood by the government of India and hence launched PMJDY to provide access to financial services in rural areas. They focused on the need of this scheme in enhancing the financial inclusion in the country.Gupta (2015).

Chowhan and Pande (2014) have identified various issues and sufferings faced by low income groups in accessing the financial services. But the launching of PMJDY has helped to mitigate such issues. The ideology of sabka sath sabka vikas, attached with this scheme is a way forward to modern banking.

Ozili (2018) have analysed the impact of digital finance on financial inclusion. Many benefits are highlighted such as affordability of digital finance, it boosts GDP, it helps in regulation of banking transactions, etc. Thus, digital finance enables greater and efficient services. It has positive impact on financial inclusion.

Measuring Financial Inclusion Index

Patrick Honohan (2007) has calculate the estimates of financial inclusion index by using the ratio of bank accounts and Micro Finance accounts to the total population, the average deposit size, household survey-based access and the per capita GDP for more than 160 countries.

Sharma (2007) evolved a concept of "Index of Financial Inclusion" as a more comprehensive indicator of inclusion in an economy. According to him, Financial Inclusion index is an amalgamation of three aspects namely accessibility, availability to users and its actual usage.

As per the study of Sharma (2007) dimension of Index of financial inclusion are as follows:

Accessibility

Accessibility can be measured by the penetration of the banking system given by the number of bank Accounts per 1,000 populations.

Availability

Availability can be measured by the number of ATMs and number of bank branches per 1, 00,000 people.

Uses

It can be measured by the volumes of credit plus deposit related to the GDP.

By following the above variables, the index for each of these dimensions has been computed by using the formula as:

$$D_i1= (X_i1+X_i2+X_i3....X_n)/n) \qquad (1)$$

$$X_i = Ai\text{-}mi/Mi\text{-}mi \qquad (2)$$

Where:

Ai = Actual value of dimension i.

mi = minimum value of dimension i.

Mi = maximum value of dimension i.

The above equations ensures that Di lies between 0 and 1. Here lower the value of D_i implies lower the country's achievement in dimension i and vice-versa. Each Dimension (D_i) is a simple average of all the X_i.

After calculate the index of individual dimensions, the following equation has been applied as given below:

$$IFI = (Di1^{/3}.\ D_i2^{1/3}.\ D_i3^{1/3}) \qquad (3)$$

On the basis of index value of financial inclusion, the results can be categorize into three categories i.e.,

1. 0.5 < IFI ≤ 1 – high financial inclusion
2. 0.3 ≤ IFI < 0.5 – medium financial inclusion
3. 0 ≤ IFI < 0.3 – low financial inclusion

This study is an attempt to construct an index of Financial Inclusion (IFI) for the purpose of

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measuring the extent of financial inclusion in India by using the data published by RBI and World Bank Group from April 2004 to March 2018. Following are the variables, have been taken for measuring the financial inclusion index.

Table-1: Dimensions and Indicators Considered for Measuring The Index of Financial Inclusion

Dimensions	**Accessibility**	**Availability**	**Uses**
Indicators	Number of bank Accounts	Number of branches	Volume of credit plus depositsas % of GDP
		Number of ATMs	

Table-2: Data Analysis

	Accessibility	**Availability**		**Uses**	
S. No	**Total Accounts**	**Total Branches**	**Total ATMs**	**Credit/Gdp**	**Deposits/Gdp**
Minimum (mi)	22%	67188	18273.08	30.46	53.447
Maximum (MI)	80%	142642	208354	54.654	71.374
Actual Value in 2018 (Ai)	81%	142642	207052	51.42	67.95
------	1	1	0.9931	0.8663	0.8093
Di	1	0.996		0.837	
FII	(1* 0.99867 * 0.94297) = 0.941716				

Source: Own Computation

	2004	**2008**	**2009**	**2018**
FII Status in India	0.165558 (Sharma Estimation)	0.163546 (Sharma Estimation)	0.168849 (Sharma Estimation)	0.941716 (Own Estimation)

In the above table the status of financial inclusion index in India for 2018 have been shown by including the data from 2004 to 2018. It reveals that in last 10 years there is a drastically change in FII index, it has got the position of high financial inclusion index in 2018 from low financial inclusion index in 2004, 2008 and 2009. The main reason behind this is PMJDY i.e. Pradhan Mantri Jan Dhan Yogna, by this most of the people have bank accounts i.e. 81% adult Indians.

Conclusion

Therefore we can say that in India the status of FII is improving very fast that will leads to help the poor people to get maximum financial advantages and to improve or enrich their own capacity and productivity. The poor peoples have no need to depend on others for getting the financial assistance and ultimately the growth of Indian economy will also improve by this.

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