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Impact of Financial Inclusion on Economic Growth of Country

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ABSTRACT

Financial inclusion is up-and-coming as a new concept of economic growth that plays a crucial role in reducing the poverty of the country. It alludes to the conveyance of financialservices to the low wage gatherings of society at a reasonable cost. It is an imperative idea for the headway of society. It helps us to reduce the gap between the high standard and low standard of people. In the present context financial institutions are the main pillars for the economic growth and development of the country. The basic reason of study is to find out the impact of financial inclusion for the financial growth of the country over a period of nine years. The data used for this study is secondary data whose results are analysed with the help of multiple regression analysis. Results of the study found positive and significant impact of number of bank branch on GDP of the country, whereas an insignificant impact has been observed in case of ATMs growth and Credit Deposit Ratio on Indian GDP.

KEYWORDS: Financial inclusion; Banking sector; Factors,GDP; ATMs; Credit deposit ratio.

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INTRODUCTION

India is a sovereign state of 1.2 billion individuals, distributed transversally in 29 states and seven territories of the Union. There are about more than 600,000 villages, 5767 Tehsils, 7933 cities and 640 districts in our nation. The banks were nationalized with the aim of covering most of the population under the banking services. Even after more than 35 years of nationalization, more than 40 percent of the adult population in India does not have access to conventional banking and financial services. This financial exclusion could be based on the individual who has neither savings nor activity and therefore does not count in the bank. Besides he may not have also the access to any financial access to any financial advisory and service fees, these services are unaffordable.

CONCEPT OF FINANCIAL INCLUSION

The idea of financial inclusion was advanced with the initialization of co-operative development in India amid 1904. It got force in 1969 when 14 noteworthy business banks of the nation were nationalized and Lead Bank Scheme was presented without further ado from that point in mid 1970's. Extensive quantities of bank offices were opened over the nation even in those zones which were disregarded before. In spite of different measures, an immense fragment of the number of inhabitants in the nation was rejected from the formal banking framework **(Chattopadhyay, 2011)[1].** In 2005, RBI proclaimed a drive for monetary inclusion whereby formal financial framework promotes the investment of each family at the door step level by means of no frill accounts for the 'unbanked' **(Ramji, 2009)[2].**

Financial inclusion is delivery of banking services at reasonable cost to the immense segments of underprivileged and low wage gatherings. By financial inclusion we mean the arrangement of reasonable budgetary services, viz., access to instalments and settlement offices, reserve funds, advances and protection benefits by the formal monetary framework to the individuals who have a tendency to be prohibited. RBI characterizes financial inclusion as "a procedure of guaranteeing access to suitable financial products and administrations required by all areas of the general public by and large and defenceless gatherings, for example, weaker segments and low pay bunches specifically, at a moderate cost in a reasonable and straightforward way by directed standard institutional players".

Rangarajan Committee (2008)[3] viewed financial inclusion as “Financial participation is ensuring access to financial services and timely access to funds and the appropriate credit in the case of disadvantaged groups, weaker sectors and low-income groups at a reasonable cost.”

FACTORS AFFECTING THE ACCESS OF FINANCIAL INCLUSION:

Taking after are a portion of the elements that influence the essential access of money related consideration in India:

• ***Psychological and social hindrances:*** Many individuals deliberately rejected themselves because of mental boundaries and they believe that they are prohibited from getting to monetary administrations.

• ***Lack of legal identity*:** Lack of lawful character like voter Id, driving permit, birth declarations, work character card and so forth.

• ***Level of income decides financial access:*** Low salary individuals for the most part have the state of mind of imagining that banks are just for the rich.

• ***Various terms and conditions*:** While getting advances or at the season of opening accounts, banks put many conditions, so the uneducated and destitute individuals think that its extremely hard to get to budgetary administrations.

• ***Lack of Customized Products:*** As individuals vary in their discernment, assessments and considerations so does their requirements, the saving money industry needs to comprehend this essential reasoning and create client driven inventive items. The entire managing an account industry is putting forth non specific items coordinating the requirements of urbanized populace and arms stockpile of different administrations where as the unbanked still stays to see the light of the day break.

• ***Lack of Financial Literacy*:** Financial proficiency and absence of essential training keep individuals to approach from financial services. Low proficiency rate has been an awesomeobstruction for financial inclusion as obliviousness brought about low levels of awareness making trouble impart the need for financial propensities and what investment funds can do to improve their expectations for everyday comforts.

• ***Language Barrier*:** One of the real hitch in financial incorporation being non accessibility of printed writing in local vernaculars which is generally an essential for achieving the masses. As the greater part of the writing in the managing an account industry are in bilingual mode (Hindi/English),with vast statistic spread are constantly endanger by the obliviousness of dialect which making a dread psychosis.

• ***Geographical remoteness:*** Commercial banks work just in productive territories. Banks set their branches and workplaces just in those business territories. In this manner individuals living in immature zones think that its extremely hard to go for any bank exchange in other region over and over. Henceforth they can go for any bank administrations.

•***Infrastructural Requirements*****:** With the progression branch opening under new branch approval approach of RBI which empowers the opening of branches in under saved money or unbanked zones. Infrastructural arrangements are not that eager to run even a satellite operation which requires control, media transmission administrations and streets for geological get to. (Source: http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/86734.pdf.

REVIEW OF LITERATURE

As pointed out by (**Chakrabarty**,**K.C)**[4] Deputy Governor, Reserve Bank of India, Financial Inclusion is the way toward guaranteeing access to suitable financial items and services required by all areas of the general public when all is said in done and defenseless gatherings, for example, weaker segments and low pay bunches specifically at a moderate cost in a reasonable and straightforward way by standard institutional players.

In the views of **V.Leeladhar**[5] Reserve bank of India announcement, Jan 2006, Financial Inclusion is conveyance of keeping financial services at a moderate cost to the tremendous areas of disadvantaged and low pay groups. As keeping money administrations are in the way of open great, it is fundamental that accessibility of managing an account and installment administrations to the whole populace without segregation is the prime target of the general population arrangement.

Mukherjee and Chakraborty (2012)[6] studied the role and efficiency of the commercial banks in Jharkhand state with their capacity and role of institutions like regional rural banks (RRBs), self-help groups(SHGs), non-banking financial companies (NBFCs) for the purpose of promoting financial inclusion.The results of analysis shown that banks were not able to achieve the desired aims and study suggested that every bank should reports to the RBI on its achievement on financial inclusion more frequently. **Uma and Rupa (2013)**[7] made an attempt to examine the role of SHGs in financial inclusion and reflected the positive relationship between SHGs membership and financial inclusion. The study revealed that after the membership to SHGs there was increase in the number of bank accounts, credit availed by the members and annual repayment of the loan also shown positive trend.

Research Gap

Financial Inclusion is a critical advance towards comprehensive development. It helps in the general monetary improvement of the under privileged population. In India powerful financial inclusion is required for upliftment of poor people and burdened individuals by giving them the altered monetary products and services. This prompts comprehensive development enveloping the denied and underestimated areas. A few investigations are done on the financial inclusion by analysing chosen banks and other work has been found on state wise development of financial inclusion. A couple of studies have been dissected the effect of financial inclusion on Indian monetary development and discovered mixed outcomes. With this background, this exploration think about is an endeavour to discover the present situation of financial inclusion in India and evaluating the effect of financial inclusion in financial development of the nation**.**

OBJECTIVES:

- ✓ To study the factors affecting access of financial inclusion.
- ✓ To study the impact of financial inclusion indicators on growth of Indian economy.

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 seven years from 2007–2008 to 2013–2014. Data has been analyzedby applying multiple regression 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

$H0_1$: There is no significant impact of number of bank branches on GDP of India.

H_1: There is significant impact of number of bank branches on GDP of India.

$H0_2$: There is no significant impact of ATM growth on GDP of India.

H_2: There is significant impact of ATM growth on GDP of India.

$H0_3$: There is no significant impact of Credit Deposit Ratio on GDP of India.

H_3: There is significant impact of Credit Deposit Ratio on GDP of India

Financial Inclusion and Indian Banking System

The RBI has encouraged banks to implement a planned and structured Financial InclusionPlans (FIPs) for the growth and development of the country. FIPs have been used by Reserve Bank of India (RBI) for measuring the banks performance under their FI initiatives. A **Table no.1**shows the performance of banks under FIP up to March 31, 2017.

Table No.: 1 Financial Inclusion Plan: A Progress Report

Particulars	2010	2016	2017	Change in 2016-2017
Banking Outlets in Villages – Branches	33378	51830	50860	-970
Total Banking Outlets in Villages – BCs	34316	534477	547233	
Banking Outlets in Villages -Total	67694	586307	598093	11786
Urban Locations covered through BCs	447	102552	102865	313
Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	60	238	254	16
Basic Savings Bank Deposit Account (BSBDA-Through branches(Amt. in ` billion)	44	474	691	217
Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million)	13	231	280	49
Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in Rs. billion)	11	164	285	121
Basic Savings Bank Deposit Account (BSBDA Total (in million)	73	469	533	64
Basic Savings Bank Deposit Account (BSBDA Total (Amt. in Rs. billion)	55	638	977	339
OD facility availed in BSBDAs (No. in million)	02	9	9	00
OD facility availed in BSBDAs (Amt. in ` billion)	0.1	29	17	12
KCCs -Total (No. in million)	24	47	46	1
KCCs-Total (Amt. in Rs. billion)	1240	5131	5805	674
GCC-Total (No. in million)	1	11	13	2
GCC-Total (No. in million)	35	1493	2117	624
ICT A/Cs-BC-Total Transactions (No. in million)	27	827	1159	332
ICT A/Cs-BC-Total Transactions (Amt. in ` billion)	7	1687	2652	965

Source: Reserve Bank of India

The number of banking outlets were 11786 opened during the period of 2016–2017. It is demonstrated by Table no.1that the number of BCs outlets opened in urban areas have increased up to 102865 in the year of 2017 out of which 313 outlets opened during the year 2017. It is a significant increment in number of BCs outlets. During the year 2016–2017 the number of basic savings bank deposit accounts (BSBDAs) opened were 64 million and total number of BSBDAs reached up to 553 million.

The number of small farm sector credits recorded a growth of 46 million in 2016 out of these 1 million KCCs recorded during the year 2017. Along with that the number of small non farm sector credit cards were 2 million during 2016-2017 and total number was 13 million over the whole period of FIP.

Table no.1 also revealed that the 1159 million transactions were carried out in BC-ICT accounts at the end of March 2017 and recorded a growth of 332 million transactions in 2016–2017.

Table No.: 2 Bank group and population group wise number of functioning branches as on 31 March, 2018.

Bank Group	Rural	Semi-urban	Urban	Metropolitan	Total
SBI and its Associates	7,766	6,816	4,879	5,026	**24,487**
Nationalised Banks	21,030	18,231	14,100	15,552	**68,913**
Other Public Sector Banks	415	592	536	577	**2,120**
Foreign Banks	9	10	37	243	**299**
Regional Rural Banks	15,191	4,797	1,634	440	**22,062**
Local Area Banks	11	44	20	12	**87**
Private Sector Banks	6,147	9,271	6,059	7,843	**29,320**
Small Finance Bank	351	554	431	390	**1,726**
Payments Bank	7	50	33	47	**137**
Total	**50,927**	**40,365**	**27,729**	**30,130**	**1,49,151**

Source: Reserve Bank of India

Table no. 2 shows the Bank group as well as population group wise number of functioning bank branches in India as on 31 March 2018. From the table it is clear that all the bank groups operate more in rural areas except payment banks, local area banks and foreign banks.

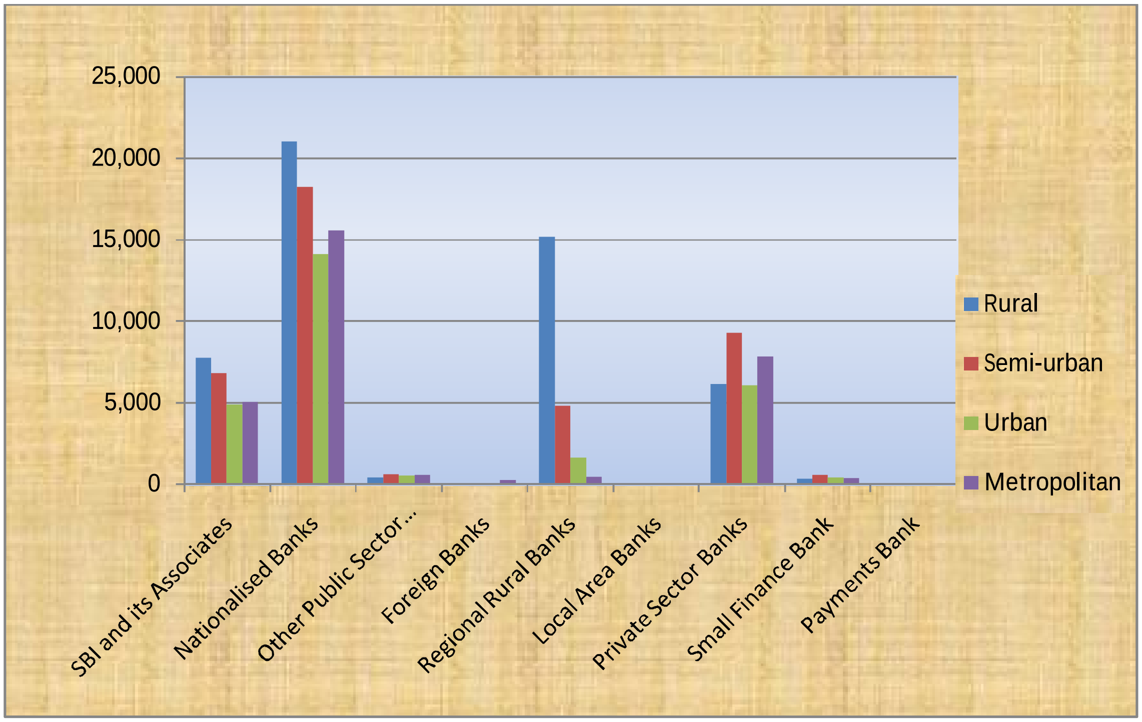

Figure: 1: Group wise bank branches **Source: Prepared by Researcher**

Fig. 1 shows the Bank group as well as population wise growth trend of number of bank branches over the India as on 31 March 2018. It is clear from the graph that SBI and its associates, public sector and regional rural banks are operates more in rural areas compared to others. The overall growth in rural and semi urban areas is comparatively more compared to urban and metropolitan. The private sector banks dominate in semi-urban areas with 9271 bank branches, local area banks in semi urban areas 44 bank branches, payment bank 50 bank branches in semi urban areas whereas foreign banks dominate in metropolitan area. The total number of functioning bank branches are 149151 across the country.

Data analysis

GDP is an important economic indicator to find out the growth of a country and it is widely used by researchers (**Chithra&Selvam, 2013; Kamboj, 2014)**[8]**.Table 3**GDP has been on continuous increase during these financial years. GDP shows 18.66% growth in the year 2010–2011, which is the highest growth over the period of time.

Table No.: 3 Different Variables

Years	GDP Growth	ATM Growth	No. OF Bank Branches	Credit Deposit Ratio
2009-2010	61,08,903	37.8	88967	72.7
2010-2011	72,48,860	23.86	94995	75.1
2011-2012	83,91,691	28.43	103213	77.5
2012-2013	93,88,876	19.15	111338	78.1
2013-2014	1,04,72,807	40.38	122948	78
2014-2015	1,12,36,635	13.33	131722	77.4
2015-2016	1,24,33,749	9.75	140743	77.9
2016-2017	1,36,75,331	4.64	146400	75.1
2017-2018	1,52,51,028	0.62	149151	75.6

Source: Reserve Bank of India

Fig. 2 illustrates Gross Domestic Product (GDP) of India during a period of nine years starting from the financial year 2009–2010 to the financial year 2017–2018.GDP has continuously increase during these financial years.

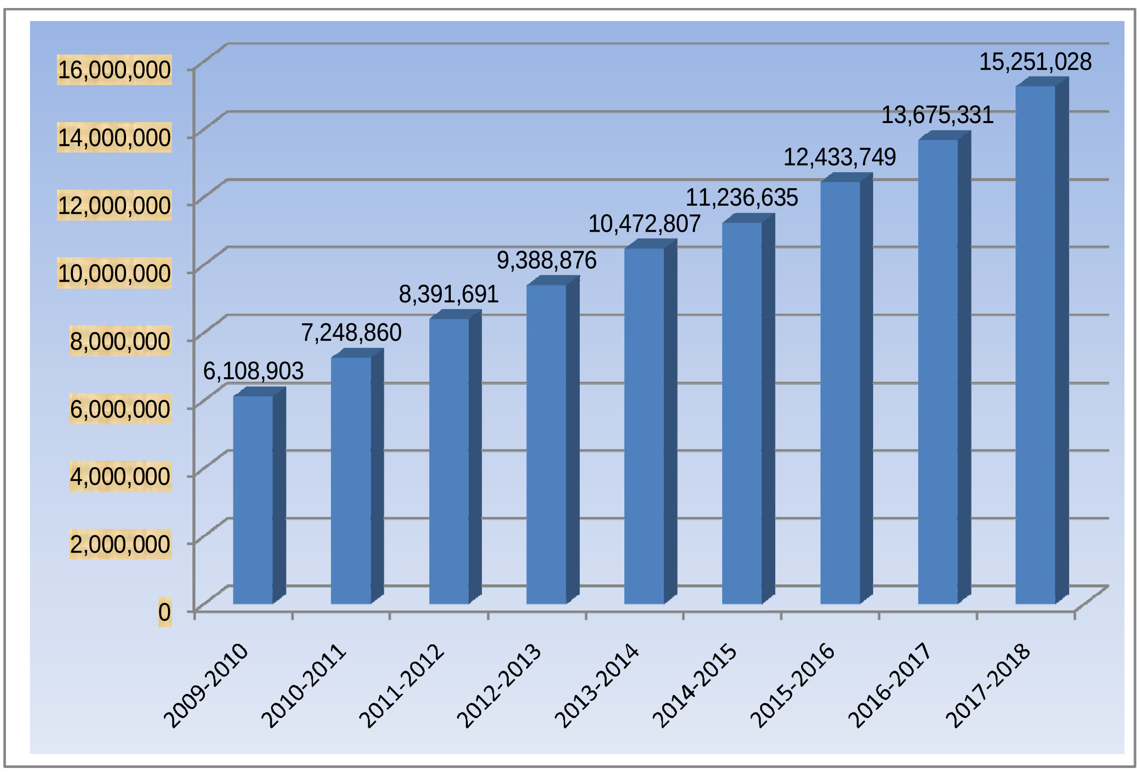

Figure: 2. GDP **Source: Prepared by Researcher**

The study also covered the Automatic Teller Machines (ATMs) in India as an indicator of economic growth of the country.The ATMs growth was (37.8%) 2009-2010, 23.86 % in 2010-

2011and it rise to 28.43 % in 2011-2013.In the financial year 2013—2014 the ATM growth rate was recorded highest i.e.,(40.38 %) but from 2013-2014 ATM growth was continuously decreasing and in 2017-2018 it was recorded as 0.62 %. (**Figure 3)**

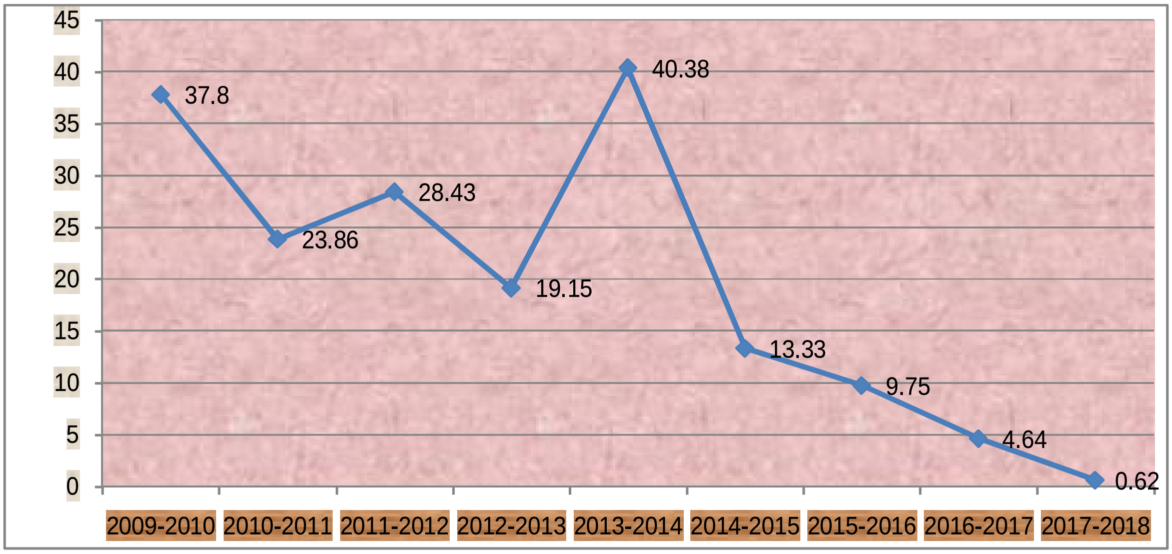

Figure: 3. ATM Growth **Source: Prepared by Researcher**

Fig.4 shows the trend of number of functioning branches of Scheduled Commercial Banks(SCBs) in the country. It is clear from the line graph that bank branches showing an increasing trend over the period of nine years. There were 88967 bank branches in 2009–2010 that has been increased up to 149151 in 2017-2018. The highest growth has been found in the year 2013-2014(10.42%) and the lowest growth rate was found in the year 2017-2018(1.87%).

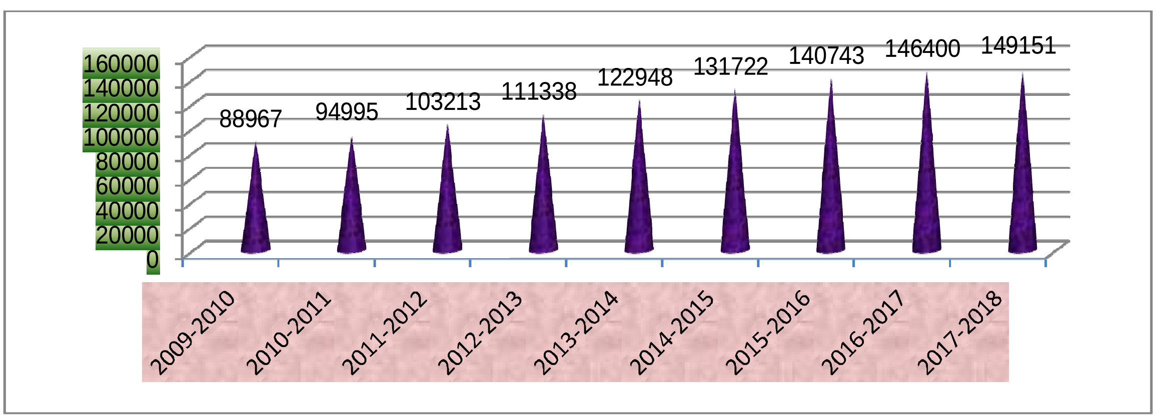

Figure: 4. Number of Bank Branches Source: Prepared by Researcher

Figure 5 indicates the credit deposit ratio during the period of nine financial years which started from 2009- 2010 to 2017–2018. The remarkable growth has been found in the year 2012-2013 (78.1 %) and maximum declined recorded in 2016–2017.

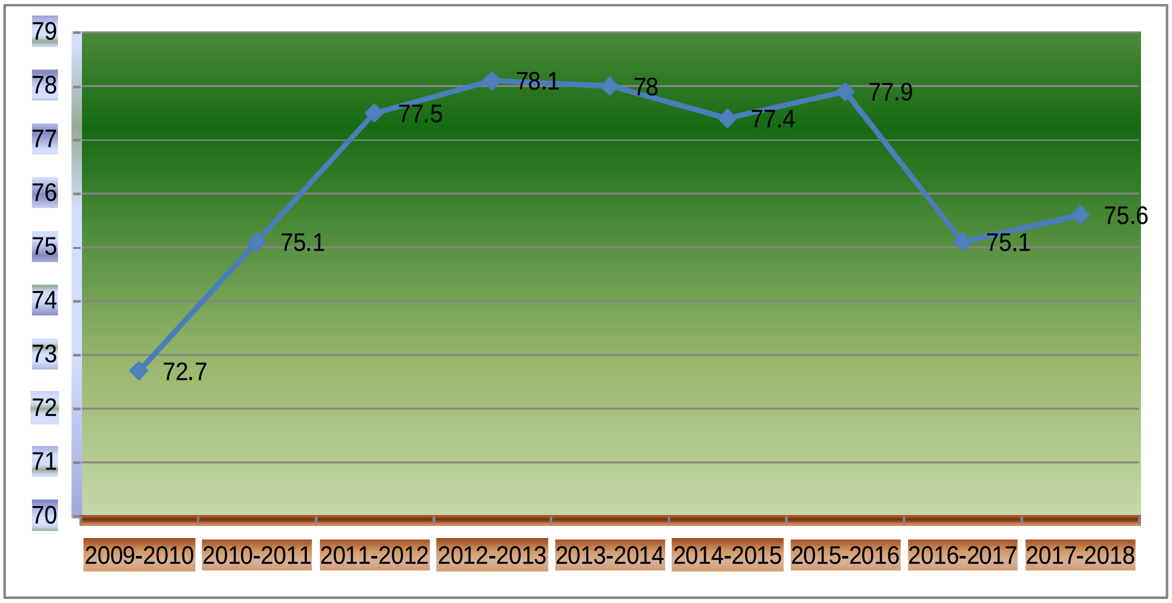

Figure: 5. Cash Deposit Ratio Source: Prepared by Researcher

Results of Multiple Regression Analysis:

Table No: 4 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.987[a]	.974	.958	616353.66449	1.275

a. Predictors: (Constant), Credit Deposit Ratio, ATM Growth, Bank Branches

b. Dependent Variable: GDP Growth

Source : Prepared by Researcher through SPSS

Table No: 5Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-577150.75	9136624.31		-.06	.95
ATM GROWTH	-18672.81	25920.26	-.08	-.72	.50
BANK BRANCHES	123.62	16.96	.92	7.28	.00
CREDIT DEPISIT RATIO	-46501.94	128346.60	-.02	-.36	.73

a. Dependent Variable: GDP Growth

Source: Prepared by Researcher through SPSS

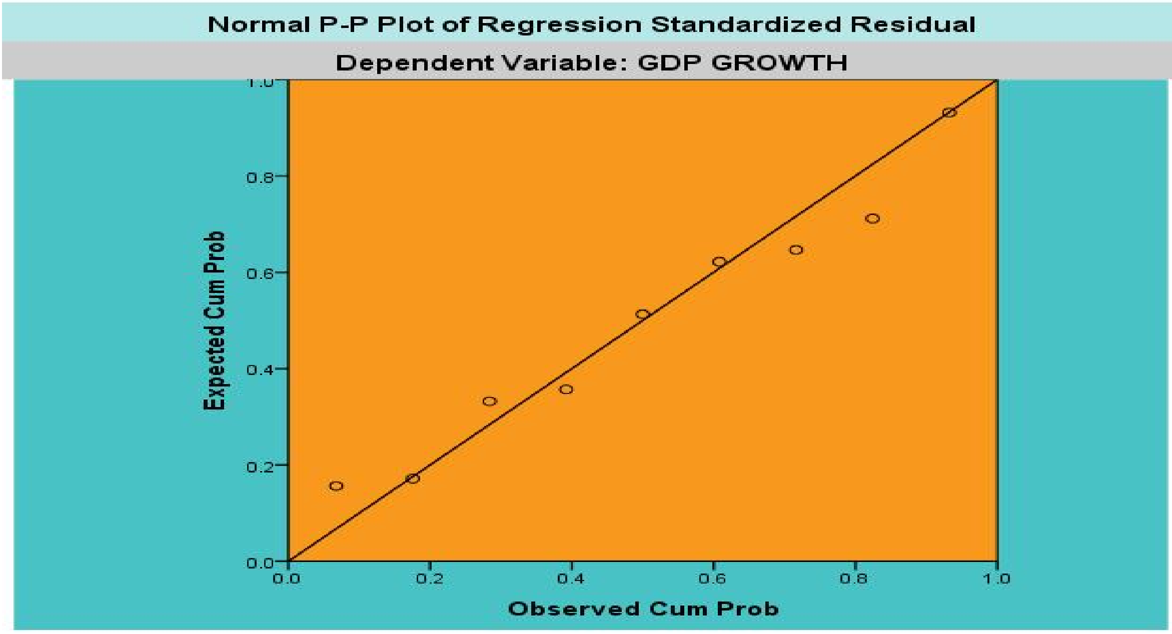

Figure: 4. Normal P-P Plot **Source: Prepared by Researcher**

Table 4 indicates that model summary of multiple regression analysis which is carried out through SPSS 23. The result of the Model shows that the value of *R* is .987, which indicates a highcorrelation between dependent (GDP) and independent variables (Credit Deposit Ratio, ATM Growth, Bank Branches). The value of *R* square is .974 and Adjusted *R* square is .958. The p value of the model is .000 level of significance which is less than .05percentindicating that the regression model is statistically significant and a fit model. The value of the Durbin–Watsontest less than one or greater than three is not acceptable, as a rule of thumb and is an indicationof autocorrelation problem. The model summary displays the value of Durbin–Watson statistic 1.275 which is free from autocorrelation problem.

Table 5 demonstrates that results of regression analysis for GDP and Financial inclusion indicators, it is to be pointed that financial inclusion variables include Number of bank branches, ATMs growthand Credit deposit ratio in the country. Results of multiple regression reveals that the beta valueof Number of bank branches is 123.629 which shows a positive impact on GDP. The p value is.001 which is less than .05 % level of significance, andwhich indicates that there is a statistically significant impact on GDP. It further reveals that the beta value of ATM growth is −18672.815 and*p* value is .504which is more than .05 % level of significance which showsinsignificant impact on GDP.These results are also supported by (**Badar, Alam&Iqbal2016)**[9]who have highlighted theno significant impact of number of bank branches on GDP of India.

Moreover, Credit deposit ratio shows -46501.940 beta value which shows that there is no significant impact of Credit deposit ratio on GDP growth, because the p value of Credit deposit ratio is .732 which is more than.05 level of significance.

The following regression equation was obtained:

$Y = -577150.753 – 18672.815X1 + 123.639X2 - 46501.940X3 + \varepsilon$

$H0_1$: There is no significant impact of number of bank branches on GDP of India.	Rejected
$H0_2$: There is no significant impact of ATM growth on GDP of India.	Accepted
$H0_3$: There is no significant impact of Credit Deposit Ratio on GDP of India.	Accepted

CONCLUSION

Financial access can truly help the financial inclusion and norms of life of poor people and the distraught population of the nation. Absence of available, reasonable and suitable financial inclusion services has dependably been an Indian issue and successful comprehensive monetary framework is required for financial development of the nation. Reserve bank of India (RBI) and government assumes an essential part in advancing budgetary consideration for monetary development to build the managing an account infiltration, establishment of new ATMs and execution of different plans in the nation **(Raman, 2012)**[10]**.**

The Reserve Bank has utilized FIPs to measure the execution of banks under their financial inclusion activities. During the period of FIPs 2010– 2013 countless accounts have been opened. In any case, it has been seen that the accounts opened and the banking infrastructure framework made has not seen considerable tasks regarding transactions.RBI has been connected a new three-year FIPs amid 2013– 2016 for guaranteeing important access to opening an account services to the rejected population. The new FIP is presently more centeredaround the volume of exchanges which assumes a critical part in development and improvement of the India. The most hearty relationship is seen among financial inclusion and financial development of the nation **(Julie, 2013)**[11]**.**

The present examination found the positive huge effect of number of bank offices of banks on GDP of the country.Where two pointer of financial inclusion, ATMs development rate and credit deposit ratio has been demonstrated a measurably insignificant effect on Indian GDP. Regardless of this there ought to be a requirement for legitimate financial inclusion direction in the nation to get to monetary services and client mindfulness E-banking trainingand financial proficiency projects ought to be organised. Along these lines, financial inclusion is a major street which India needs to movement to make it totally fruitful.

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