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An In-Depth Study of Factors Affecting Financial Inclusion

Dr. Vikas Nath,
Director, Bharati Vidyapeeth University Institute of Management & Research
Bhawna Dhawan,
Research Scholar, Bharati Vidyapeeth University Institute of Management & Research

ABSTRACT

Financial Inclusion has gained importance in all the countries across the world. Studies have revealed that financial inclusion not only helps individuals to economically grow strong but also helps the nation to be economically strong. In spite of so many efforts being taken over the years, the mission of accomplishing 100% financial inclusion is still not achieved. The paper aims to studythrough extensive review of literature, the factors which affects financial inclusion. The study has identified major factors like not enough income, lack of financial education, absence of required documents for due diligence process, convenience and trust in local money lenders over banks as few of the reasons for not being part of formal banking system. At the end of the study discussions and suggestions are given, which if adopted may help in taking a step further towards financial inclusion.

KEY WORDS: Financial Inclusion, Factors, PMJDY, Banking

INTRODUCTION

There has been immense brainstorming worldwide for accomplishing financial inclusion in entirety. The efforts are being made since September, 2008 when 189 countries endorsed United Nation Millennium Declaration to "End the Poverty by 2015". In India, the term financial inclusion was coined in the year 2005 by RBI governor, Dr. Y. V Reddy. Though, a lot has been done since then but still we are far away from the dream goal.

Financial inclusion may be defined asmaking financial services **A**vailable, **A**ccessible and **A**ffordable to all the sections of society irrespective of **C**aste, **C**reed, **R**egion, **R**eligion, **I**ncome and **G**ender.

Dr. C. Rangarajan defined financial inclusionas "the process of ensuring access to financial services and timely adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost"(Financial Inclusion in India – An Assessment, n.d.).

Kohli (2013) definedFI as "delivery of financial system of an economy to its members".

Status of Financial Inclusion in India

There is immense spread of banking branches including scheduled commercial banks and ATMs across India since long to cover the maximum rural poor population in the country. The data given below includes the information from 2011 – 2015, as unfortunately the updated data till 2017 could not be found on any government portal.

TABLE 1: BANK BRANCH NETWORK (POPULATION GROUP WISE): The number of Public Sector Banks (PSBs) Branches and Scheduled Commercial Banks (SCBs) Branches from 2011 – 2015.

	Public Sector Banks					**Scheduled Commercial Banks**				
As On	Rural	Semi Urban	Urban	Metropolitan	Total	Rural	Semi Urban	Urban	Metro-politan	Total
31.03.2011	20658	16217	13450	12612	62937	33923	23089	17629	16255	90896
31.03.2012	22379	17905	14322	13244	67850	36546	25834	18879	17274	98533
31.03.2013	24243	19642	15055	13797	72737	39816	28546	19935	18092	106389
31.03.2014	27547	21952	16319	14644	80462	45293	31530	21532	19275	117630
31.03.2015	29634	23549	17387	15325	85895	48557	33766	23036	20498	125857

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TABLE 2: NUMBER OF FUNCTIONING BANK BRANCHES AS ON MARCH 31, 2015:

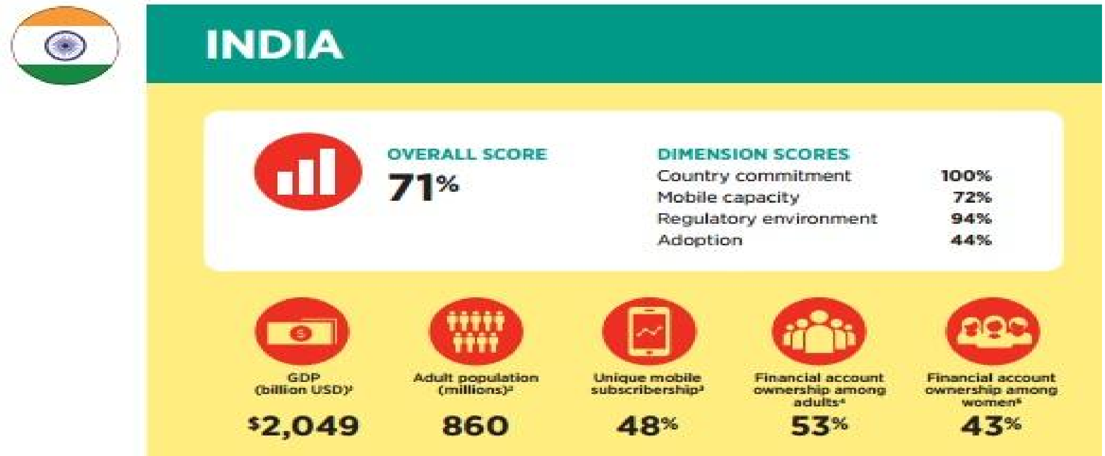
Bank Group	Rural	Semi Urban	Urban	Metropolitan	Total
SBI & its Associates	8029	6593	4304	3622	22548
Nationalized Banks	21228	16428	12604	11325	61585
Other Public Sector Banks	377	528	479	378	1762
Private Sector Banks	4302	6457	4521	4698	19978
Foreign Banks	8	12	57	247	324
Regional Rural Banks	14613	3748	1071	228	19660
Grand Total	48557	33766	23036	20498	125857

TABLE 3: TOTAL NO. OF ATMS POSITIONED BY PSBS AND SCBS

As on	Total ATMs (PSBs)	Total ATMs (SCBs)
31.03.2011*	50233	75645
31.03.2012	58193	95686
31.03.2013	69652	114014
31.03.2014	110424	160055
31.03.2015	128665	181252

* ATMs as on 30th April, 2011 Source: http://financialservices.gov.in

The above facts and figures demonstrates that the GOI and RBI are taking serious initiatives towards extending financial products and services to the enormous un-banked people of the nation to unleash their growth prospective. They are striving hard to get the poor under the ambit of formal financial system.



Source: www.brookings.edu

But till date we have been able to tab only 53% of adult population who have formal accounts. According to Villasenor, West, & Lewis (2016) India has potential to expand its financial inclusiveness. The data indicates that 72% population have mobile phones, so digital financial inclusion has also a wide scope to be tapped. Only 43% of women have formal accounts. The percentage can be increased by making more females of the nation literate and by motivating them to be financially independent.

RESEARCH METHODOLOGY

The paper aims to study the measures adopted by government towards financial inclusion and the factors which are coming their way as barriers to attain 100% financial inclusion. An in depth analysis of secondary data, available on websites and journals, has been done to achieve the objectives.

REVIEW OF LITERATURE

Since the year 2005, the government of India has announced financial inclusion drive and has taken endless measures to attain it in entirety. Some of the major measures taken by GOI and RBI are highlighted in the following table.

TABLE 4: MEASURES TAKEN BY RBI & GOI TOWARDS FI

S. No	Initiatives	Description
1	**Basic Saving Bank Deposit (BSBD) accounts**	BSBD accounts or no frill accounts offers facilities like zero balance, deposit, withdrawal, credit through e-payments, and ATM card
2	**Relaxed and simplified KYC norms**	Banks may use Aadhar Card as ID proof for individuals holding small accounts with balance up to₹ 50,000 and with credits limitup to₹1 lakh a year;
3	**Simplified Branch Authorization Policy**	SCBs are permitted to open branches with population less than 1lakh and forNorth-Eastern States branches may open without seeking permission from RBI.
4	**Compulsory Bank Branches**	Banks have to allot at least 25% of branches in Un-banked Villages.
5	**Brick and Mortar structure**	For effective banking operations, grievance redressal issuesand supervision of Business Correspondents' activities
6	**Financial Literacy Centres (FLCs)**	All scheduled commercial banks should conductFLCs to facilitate financial inclusion.
7	**USSD-based mobile banking**	To facilitate mobile banking users withfeatures like money transfer, bill payments, balance enquiries.

Source: www.rbidocs.rbi.org.in

Prime Minister, Mr. NarendraModihas mentioned "For me, JAM is about 'just achieving maximum'. Maximum value for every rupee spent. Maximum empowerment for our poor… Maximum technology penetration among the masses…" (Aiyer, 2017)

This states his commitment to provide even the poorest of the poor the opportunities for well-being in the form of offering financial products and services at zero cost, financial literacy (compulsion on banks to set up financial literacy camps), mobile banking using USSD, Bank Mitra,etc. and, thus, raising the socio economic parameter of the nation through financial inclusion. Targets have also been given to banks to increase the bank deposits.

TABLE 5: SOME OTHER INITIATIVES TAKEN BY PRIME MINISTER MR. NARENDRA MODI TOWARDS FINANCIAL INCLUSION ARE:

S.NO	YOJNA	DETAILS
1.	Pradhan Mantri Jan DhanYojana (PMJDY)	Banks can open zero-balance for poor with only Aadhaar card as ID proof The scheme offers other benefits to the account holders, such as:1) Accident insurance upto₹1 lakh, 2) for accounts opened before January 26, 2014 got additional life insurace of ₹ 30,000, 3) if account is operative for at least six months, the account holders may also be offered an overdraft facility, first for ₹2,500 and then for ₹5,000, 4) each account holder will get a RuPay Debit Card.RuPay Debit Card works onATM machine, POSstations, and also helps in online purchases and works as any other card in the world with the flexibility of payment options.
2	Pradhan MantriJeevanJyotiBima Yojana (PMJJBY)	PMJJBY is for people from 18years- 50 years with bank accounts.₹330 is charged for the sum assurance of ₹2 Lakh. Afterdemise of the holder, the payment is made to the nominee.
3	Pradhan MantriSurakshaBima Yojna (PMSBY)	PMSBY is personal accidental insurance for people between 18 - 70 years holding bank accounts. ₹12 is charged annuallyagainst the sum assurance of ₹2 Lakhs. Of any accidental demise or full debility, the compensationwill be made of ₹2 lakh (to the nominee in case of death) and for partial Permanent disability the victim will get ₹1 lakh.
4	Atal Pension Yojna	Is for people between 18years – 40 years for their contribution towards the pension fund. 50% of the total contribution or ₹1,000per annum, whichever is less will be contributed by the government in the eligible account holder for 5 years. The age for receiving the pension willstart from 60 years.

Source: http://www.pradhanmantriyojana.co.in/

Guinness World Records Recognizesthe successof PMJDYojna and has certified it as "The most bank accounts opened in 1 week as a part of financial inclusion campaign is 18,096,130 and was achieved by Banks in India from 23 to 29 August 2014".

Suarez & Pacheco (2017) has explained the factors affecting FI by classifyingregulatory practices into three categories: 1) the Enablers (are the factors those facilitates adaption and adoption of financial products and services, like - competition policies and supervisory quality, 2) the Promoters (are regulatory interventions those deal with market frictions, like- Simplified Know-Your-Customer (KYC) requirements, Simplified Accounts, Electronic Money, Correspondents, and3) the Preventers (are factors those create barriers that adversely affect financial inclusion, like Interest Rate Ceilings, Transaction Taxes, Directed Lending).

World Bank (2017)highlighted that Financial inclusion is a key to reduce poverty andinduce prosperity. FI not only helps in enhancing standard of living but also prepares the individuals for emergencies. In spite of many steps taken towards FI, still there are significant challenges towards attaining financial inclusion. Approximately 2 billion people have no access to formal bank accounts; and of those who have accounts, 59% cannot afford using the facility because of low income. The other barriers reported are distance, lack of required documents, trust, gender gap and most important the forcibly displaced population.

Park & Mercado (2015)constructed a financial inclusion indicator to assess various factors affecting the financial inclusion which includes - commercial bank branches for each 100,000 adults, ATM for each 100,000 adults, Credit deposit with commercial banks per 1,000 adults, and domestic credit to GDP ratio. The study found that existence of bank accounts helps in reducing poverty; and also helps in loweringeconomic inequality. The study shows thatper capita income, rule of law, and demographic factors alsoconsiderablyeffect financial inclusion growth.

DEMİRGÜÇ-KUNT & KLAPPER (2013) interviewed 70,000 adults in 148 countries using Global Findex and studied howadults without a formal account managed their financial transactions and risk associated with it. The data revealed that 50 % of adults were part of formal financial system but with a vast variation in the level of account penetration. The key barriers reported for unbanked population were- lack of enough money, affordability or cost which included fixed transaction costs and annual account maintenance fees, distance, KYC requirements, income inequality, adult literacy (especially financial literacy), lack of trust in banks, religious reasons and urbanization. The other significant reason was that one of the family member has an account and this was majorly stated by women and people in poorer countries.

Diniz, Birochi, & Pozzebon (2012) highlighted that the absence of financialservices demotivates and also act as barriers to financial inclusion and also towards development of the individuals. The other constraints reported were related to education, financial and information access, and restrictions to ICT access.

Sarma & Pais (2011)studied the relationship between FI index and Human development index and have categorized factors affecting financial inclusion worldwide across countries under three macro factors namely, banking access, availability of banking services and usage of the bank accounts. Accessibility includes number of bank accounts (per 1000 population), availability is measured by number of bank branches and ATMs (per 100,000 people). The data on credit deposit ratio is only highlighted when usage of banking system is discussed; which is not a complete information as usage of banking system also includes disbursements of funds, transfers of funds and also release of funds. So, according to the study,in the absenteeism of such data only two factors access and availability should be taken into consideration.

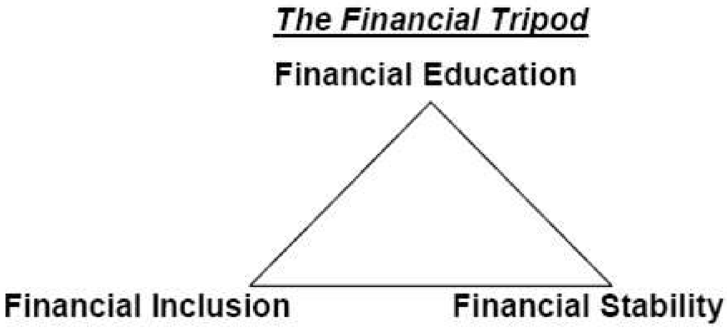
DISCUSSION & SUGGESTION

1. Access to accessible and affordable formal account can encourage an individual to save and borrow and can also benefit them in receiving direct transfer of wages, remittances, government payments, retirement pensions.
2. If the costs of having an account has more benefits, then the individuals will be motivated to use accounts and, thus, will result in win-win situation for both the suppliers and the customers of financial products. As banks (suppliers) will be able to generate profit by sales maximization and poor people (potential

customers) can have a platform to boost their economic condition, making them secure from greedy money lender present in informal markets by paying less interest.

3. There is also a need of availability of proper infrastructure, electronic connectivity, financial literacy and information. The proper infrastructure includes - banks indicated by road network, telephone and internet usage, which also plays animportant role in enhancing the growth of financial inclusion.
4. Villasenor, West, & Lewis (2016)has suggested that India should focus on reducing the account dormancy rates and should motivate adoption of digital payments to improve the digital financial services ecosystem. If compulsorily a bank account with Aadhar Card can be provided by bank with a very low amount like ₹50 every month for urban rural poorpopulation; it might make a difference in financial inclusion as it has also been noticed that poor people have started sending their girl child to school after the introduction of "**Pradhan MantriBetiBachaoBetiPadao**"scheme where in direct transfer of ₹1500 to girl child account is made to sponsor their education.

CONCLUSION



Source: www.rbi.org

Lagarde (2014) said that the merits of financial inclusion are related to empowerment as the access to credit has an impact on economic opportunity and economic outcome. World Bank (2017), also concluded that financial access helps individuals to plan for future needs and unexpected emergencies. People use financial services to start and expand businesses, for education and health, to avail credit and insurance, to manage risk and financial shocks, and, thus, can improve the overall quality of their lives. Thus, financial inclusion aims at bringing all the unbanked population under formal banking system by providing access to many financial products and services. But this cannot be achieved until and unless the target population is made aware of the information about the same. Thus, financial education and financial inclusion goes hand in hand to achieve financial stability and economic empowerment in the long run.

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