Journal of Finance, Business and Management Studies
Volume 4, Number 1, 2024, pp. 15–19
ISSN 2583-0503
Published by RGN Publications
http://www.rgnpublications.com

Financial Inclusion: A Step Towards Developed Nation

Rohit Garg, Paras Batra*

Department of Business Studies, Panipat Institute of Engineering & Technology, Samalkha, Haryana, India

ARTICLE INFO

Keywords:
Financial inclusion
GDP
Banking sector
Indian economy

JEL: E44, E42, E58
DOI: 10.26713/jfbms.v4i1.2642

ABSTRACT

Financial inclusion is an emerging economic growth paradigm, especially in developing countries like India. It is one of the major factors which has contributed to the growth and development of Indian economy. Financial inclusion refers to the delivery of banking products and services at affordable terms and conditions. Accessibility of financial services at affordable prices has been always a global issue. Therefore, comprehensive financial system is required in our country. In order to enhance GDP and ease of doing business rank, financial inclusion is top objective of our government. In the current scenario financial institutions are the robust pillars of progress of the economy. The objective of this study is to examine the impact of financial inclusion on growth and development of Indian economy. Secondary data has been used in this study. Prime Minister Shri Narendra Modi launched Pradhan Mantri Jan Dhan Yojna on 28th August, 2014. This policy aims at accessing financial services namely banking/saving, deposit accounts, insurance and pension in an affordable manner. Result shows that there has been increase in number of bank branches, outlets and savings accounts from 2014 to 2023 which has significantly contributed to the development of GDP of our economy.

1. Introduction

The Indian government and the Reserve Bank of India havemade numerous efforts to promote financial inclusion as part of its national vision. In the last ten years, the Indian government has taken several steps: Building Strong Branch Networks, Lead Bank Schemes, Liberal Priority Loan, zero balance basics saving bank deposit (BSBD) accounts etc. Regardless of their political stance, Indian authorities have been recognizing the importance of financial inclusion for a number of years, and throughout the past ten years, they have stepped up their efforts. Several public stakeholders have executed numerous projects and schemes in various states of India (Rainchoudhary, 2020 [4]) The essence of financial inclusion is to serve delivery of financial services which includes not only banking services but also other financial services like equity and insurance products. Banks play a crucial role in financial inclusion: without them, it may not be possible to reach the targeted level of financial inclusion.

Only banks are able to provide financial services such as savings, remittances, credit and insurance, these services are necessary for first phase of financial inclusion. This is because banks not only have a vast integrated network of commercial banks, Regional Rural Banks, cooperative banks with cutting edge & fintech technology

*Corresponding author
Email(s): rohit.teacher@gmail.com (R. Garg); parasbatra18@gmail.com (P. Batra)
Orcid(s): 0000-0002-2824-3835 (R. Garg); 0009-0003-2288-6332 (P. Batra)

with integrated human resources, but they are also experts in these crucial financial services. We looked at India's current state of financial inclusion through banking products in our research. Additionally, we have expanded our study to investigate how financial inclusion affects India's economic expansion.

Financial inclusion has grown in importance as a monetary and fiscal policy concern over the past few years. Several global gatherings, such as the one supported by the United Nations in 2019, underscored the necessity of ensuring financial inclusion in developed nations, without it, people and businesses cannot engage fully in domestic economy. An increasing body of research demonstrates that inclusive financial markets lower the rates of poverty and inequality by giving households and people to control their spending and payments, buy insurance and applying for bank loans (Sharma & Changkakati, 2022 [5]). Moreover, financial inclusion fosters the development of fresh, creative business as well as the growth of established ones, adding jobs that boost GDP of economy. Financial inclusion helps young people, women and other previously excluded categories of people become economically empowered and actively participation in the financial system.

2. Research Gap

A critical first step toward equitable growth is financial inclusion. It aids in the impoverished population's general economic development. The upliftment of the impoverished and disadvantaged in India requires effective financial inclusion in order to provide them with customized financial goods and services. This results in inclusive growth that includes the underprivileged and disadvantaged groups (Singh & Ghosh, 2021 [6]). Studies on financial inclusion have been conducted by examining certain institutions, and research on the expansion of financial inclusion at the state level has also been discovered. The effects of financial inclusion on the growth of the Indian economy have been examined in a few studies, with varying degrees of success.

3. Objectives of Study

(i) To assess the India's current state of financial inclusion.

(ii) To look into the main elements influencing financial service accessibility.

(iii) To research how financial inclusion metrics affect the expansion of the Indian economy.

4. Financial Inclusion: Journey of India

The idea of financial inclusion is not new to the people of India. The last forty-four years have been spent in India.

The number of commercial banks in India increased as a result of the nationalization of commercial banks in 1969 and 1980, the establishment of regional rural banks in 1975, and the implementation of banking sector reforms in the years after 1991. The number of commercial banks increased from 8,262 in June 1969 to 1,02,342 in 2013, and the population per branch fell from 65,000 to 13,756 according to the Economic Survey 2012–2013 (Mishra & Subudhi, 2019 [3]).

Financial inclusion is one of the main tools for financial growth in India. When compared to other developing nations, India's financial services coverage is rather limited. Financial inclusion in India began in 2005 with the work of Chakrabarty (2011) [1]. He carried out a pilot research in Pondicherry's Mangalam village. That hamlet later became the first in India to provide financial services to every citizen.

To facilitate their credit applications, General Credit Cards (GCC) were distributed to the impoverished. The practice of guaranteeing vulnerable groups, such as lower-class and low-income individuals, have affordable access to relevant financial products and services is known as financial inclusion, according to the World Bank (Kamboj, 2014 [2]).

In 2014, PMJDY was launched by our Prime Minister. Pradhan Mantri Jan-Dhan Yojna (PMJDY) is a national mission for financial inclusion to ensure access to financial services, namely, banking/ savings and deposit accounts, remittance, credit, insurance, pension in an affordable manner. Account can be opened in any bank branch or business correspondent (Bank Mitr) outlet. PMJDY accounts are being opened with zero balance.

5. Presumptions

(i) Following research has consideredthe data of year ending 2014 and year ending 2023.

(ii) The research has been conducted with keeping PMJDY in mind of authors. Year 2014 has been selected because in this year on 28th August, PMJDY was launched and data has been compared with data of current year.

6. Research Methodology

The secondary data used in this study was mostly gathered from reports published by the Ministry of Finance, the Government of India, and the Reserve Bank of India, newspapers, research articles, research journals, e-journals, books, and magazines. Further websites that were consulted were the Government of India (GoI), RBI, and Ministry of Finance. Data of year 2013-2014 has been compared with 2022-2023 in this research and it has been observed that number of banking branches, outlets and saving accounts has been raised tremendously which shows that number of people assessing to financial services are increasing day by day and year by year.

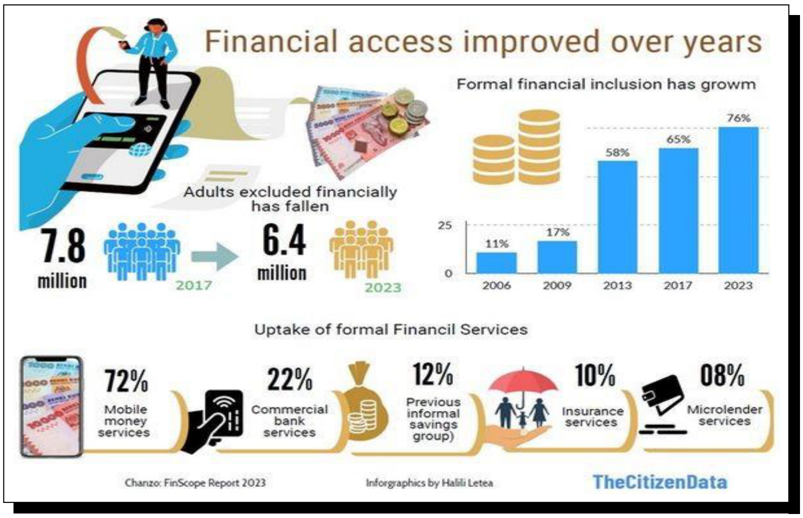

Figure 1: Financial access improved over years (Source: thechanzo.com)

6.1. Data Analysis

The number of banking outlets were 12,98,153 opened during the period of 2013-2024 which has been increased up the total number of outlets nearly 16,81,957. It is demonstrated by Table 1 the number of basic savings bank deposit accounts (BSBDA) opened during nine years were 442.6 million and total number of BSBDAs reached up to685.6 million.

Gross Domestic Product is a crucial economic metric that analysts frequently use to determine nation's growth. Table 2 and Table 3 shows the bank group as well as population group wise number of bank branches in India as on 2014 and 2023. From the tables it is clear that public sector banks operate more in rural areas whereas foreign sector banks dominate in metropolitan area with more branches compared to other area. Private sector banks operate more in semi urban areas. Number of branches of banks (all categories) has been increased by 1.578 times from 2014 to 2023 which clearly states that pace of financial inclusion has been increasing.

Table 1
Assessment of performance of financial inclusion plan

S. No.	Variable	2014	2023	Change (2014-2023)
1	Banking Outlets in Villages	46,126	53,802	7, 676
2	Banking Outlets in Villages – Branchless Mode	3,37,678	16,28,155	12,90,477
3	Banking Outlets in Villages – Total (1)+ (2)	3,83,804	16,81,957	12,98,153
4	Basic Savings Bank Deposit Account (BSBDA) through branches (in million)	126	275	149
5	Basic Savings Bank Deposit Account (BSBDA) through branches (in billion)	273	1336. 61	1,063. 61
6	Basic Savings Bank Deposit Account (BSBDA) through BCs (in million)	117	410. 5	293. 5
7	Basic Savings Bank Deposit Account (BSBDA) through BCs (amount in billion)	39	1295.31	1,256.31
8	Total Basic Savings Bank Deposits Account (BSBDA) in million	243	685. 6	442. 6
9	Amount of BSBDA (in billion)	312	2631.92	2319.92

Source: Reserve Bank of India

Table 2
Number of working branches as on March 31, 2023

Bank group	Rural	Semi-urban	Urban	Metropolitan	Total
Public Sector Banks	29,006	23,232	16,114	16,052	84,404
Private Sector Banks	8,417	13,160	8,712	10,969	41,258
Foreign Banks	124	142	159	358	783
Grand total	37,547	36,534	24,985	27,379	1,26,445

Source: Reserve Bank of India

Table 3
Number of working branches as on March 31, 2014

Bank group	Rural	Semi-urban	Urban	Metropolitan	Total
Public Sector Banks	21,004	16,451	12,751	11,472	61,678
Private Sector Banks	4082	6155	4320	4429	18,986
Foreign Banks	8	12	57	245	322
Grand total	25,094	22,618	17,128	16,146	80,986

Source: Reserve Bank of India

Table 4 and Table 5 shows the number of ATMs installed by public, private and foreign sector banks as on 2014 and 2023. From the tables it is clear that 1.988 times from 2014 to 2023 which shows that there is increase in number of customers who prefers ATM services instead of going to bank branch. But there is one drawback of this study that in 2024, we have been shifted to digital world. We are living in cashless economy where people have started using online payments via Paytm, BHIM, UPI etc. Now a day's number of customers using ATM services has declined as compared to previous three to four years.

7. Conclusion

In developing economies like India, the banks work as mobilizers of savings and allocators of credit for production and investment, have a very critical role. As a financial intermediary, the banks contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating

Table 4
Number of ATMs as on March 31, 2023

Bank group	Onsite	Offsite	Total
Public Sector Banks	78,777	59,646	1,38,423
Private Sector Banks	41,426	35,549	76,975
Foreign Banks	619	612	1,231
Grand total	1,20,822	95,807	2,16,629

Source: Reserve Bank of India

Table 5
Number of ATMs as on March 31, 2014

Bank group	Onsite	Offsite	Total
Public Sector Banks	37,350	21,946	59,296
Private Sector Banks	17,199	31,268	48,467
Foreign Banks	260	904	1,164
Grand total	54,809	54,118	1,08,927

Source: Reserve Bank of India

new commercial activities and allocating credit to them. Financial access can really boost the financial condition and standards of life of the poor and the disadvantaged population of the country.

Reserve bank of India (RBI) and government plays an important role in promoting financial inclusion for economic growth to increase the banking penetration, installation of new ATMs and implementation of various schemes in the country. Hence, the study observed that financial inclusion is strongly associated with the progress and development of the economy. In spite of this there should be a need for proper financial inclusion regulation in the country to access financial services and customer awareness E-banking training, financial literacy and cyber security fraud programs should be organized because with online banking, number of frauds have also been increased.

References

[1] Chakrabarty, K.C. (2011). Financial inclusion — a road India needs to travel. Published on www.livemint.com on 21st September 2011. https://www.bis.org/review/r111013f.pdf.

[2] Kamboj, S. (2014). Financial inclusion and growth of indian economy: an empirical analysis. *The International Journal of Business & Management*, **2**(9) (2014), 175–179.

[3] Mishra, S., & Subudhi, R.N. (2019). The methodological domain in management research. I: Subudhi, R.N. & Mishra, S. (Ed.), *Methodological Issues in Management Research: Advances, Challenges, and the Way Ahead*, Emerald Publishing Limited, Leeds, pp. 1–10, DOI: 10.1108/978-1-78973-973-220191001.

[4] Raichoudhury, A. (2020). Major determinants of financial inclusion: state-level evidences from India. *Vision: The Journal of Business Perspective*, **24**(2), 151–159, DOI: 10.1177/0972262920923882.

[5] Sharma, U., & Changkakati, B. (2022). Dimensions of global financial inclusion and their impact on the achievement of the United Nations Development Goals. *Borsa Istanbul Review*, **22**(6), 1238–1250, DOI: 10.1016/j.bir.2022.08.010.

[6] Singh, V.K., & Ghosh, S. (2021). Financial inclusion and economic growth in India amid demonetization: A case study based on panel cointegration and causality. *Economic Analysis and Policy*, **71**, 674–693, DOI: 10.1016/j.eap.2021.07.005.