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REVIEW OF LITERATURE
NEED/IMPORTANCE OF THE STUDY
STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Garg, Bhavet (2011): Towards a New Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

FINANCIAL INCLUSION: IT'S IMPACT ON INDIAN BANKING INDUSTRY

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ABSTRACT

Today, financial inclusion is a burning point for policy making because of its potential to encourage economic growth and development. As per the Indian economy, a huge segment of India's population exists on the margins of India's financial systems. There is growing alarm for people being 'under-banked'. The main objective of financial inclusions to provide banking and financial services to weaker section of the society in a fair, transparent and equitable manner at affordable cost. It is also an important priority of the country in terms of economic growth and development of society. It enables to reduce the gap between rich and poor. It helps to channelize money-flow to the economy; it ensures people who are unable to access financial system so far can access it with ease. For this study secondary source was used to analyze the impact of financial inclusion on Indian Banking Industry and its growth by taking five years data from 2011 to 2015. The article also tried to study the various scheme run by the Government for financial inclusion. From this study it is concluded that the provision of banking branches and strong banking network are the foremost facilitator's of developmental and expansionary activities in banking industry.

KEYWORDS

financial inclusion, economic growth, economic development, financial system.

INTRODUCTION

Among economists, the general consensus is that financial development acts as a catalyst in the overall growth and development of an economy. Moreover, empirical research demonstrates that development of a strong, sound financial system contributes to economic growth (Rajan and Zingales 2003). As a result, most developing country governments are promoting financial inclusion1 as a policy goal, especially for those who are ignored by formal sector institutions.

As per the Rangarajan Committee report (2008) Financial Inclusion is defined "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost".

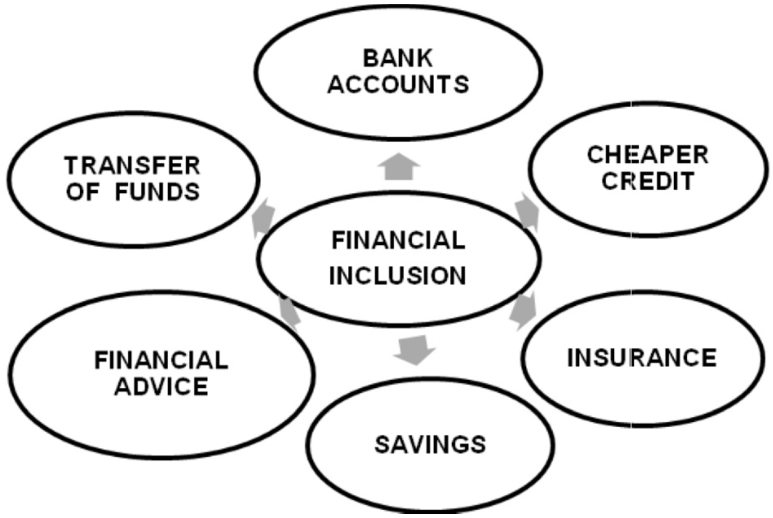
Financial inclusion complements the financial system. In the modern generation of walking for economic strength and self reliance, it is important for any country to create pleasant situations for people, households and private institutions which integrated the supply of banking offerings. The provision of banking centers and strong bank department network are the foremost facilitator's of developmental and expansionary activities. A healthy financial system is a pillar of monetary boom, development and progress of an economy. A financial system, which is inherently strong, and performs flexible, is essential to our countrywide targets of making a marketplace-driven, efficient and competitive economic system. A mature system helps higher ranges of investment and promotes growth inside the economic system with its coverage.

Banking and financial services play very crucial role in the growth and development of an economy. Research suggests that a properly-functioning and inclusive financial system is linked to a faster and equitable growth There is wide range of personal finance options for higher and upper middle income population in the form of financially engineered and innovative products whereas a significantly large section of population still lack access to the most basic banking services that is holding a bank account. This is termed as "financial exclusion". So it's very essential to provide people with easy and affordable financial products or services popularly referred to as "financial inclusion". In India, there may be a need for coordinated movement amongst the banks, government and associated groups to facilitate access to bank accounts to the financially excluded.

Financial Inclusion is very important because if customer is financially educated, he'll make better financial alternative, as an instance what type of financial product can fulfill his individual desires? It'll help in improving the overall growth of the economy. Access to financial services at a low and affordable cost price will enhance lifestyles of the poor. Financial inclusion is a long term strategy, however to achieve its goals we need to preserve in thoughts what are the important are as to focus:

- It needs to provide access of primary financial services to people like banking.
- The usage of financial services needs to deal with wishes of the poor.
- The financial product should be in low and affordable prices.
- The quality of financial product and services should be improved.

FIGURE 1: OVERVIEW OF FINANCIAL INCLUSION



OBJECTIVES OF THE STUDY

1. To study the present status of financial inclusion in India.
2. To study need and importance of financial inclusion for economic growth of society.
3. To analyze the impact of financial inclusion on Indian banking industry.
4. To highlight the measures taken by the Government and RBI to promote financial inclusion.

RESEARCH METHODOLOGY OF THE STUDY

This study is mainly based on descriptive in nature. Research methodology explains and chooses the best way of doing. For this study secondary research was conducted to analyze the impact of financial inclusion on Indian Banking Industry and its growth by taking five years data from 2011 to 2015. The information and data for the research are collected through secondary sources i.e. published articles, journals, newspapers, reports, books and websites of the Reserve Bank of India and also taken from various committees reports submitted to the government of India on Financial Inclusion. Various tables and graphs have also been used.

WHY WE NEED FOR FINANCIAL INCLUSION

Finance has come a long way since the time when it wasn't recognized as a factor for growth and development. But now it is recognized as the brain of an economic system most of the economies strive to make their financial systems more proficient.

The earlier research focused on how finance helps an economy. Now research shows that financial inclusion is as vital. The new possibilities for research in finance are making financial inclusion workable. Patrick Honohan (of Trinity college, Dubai) in his studies developed an index to measure get right of entry to finance in 160 countries. If the index is placed on world map it can be honestly seen that the ones economies having better indices are generally the ones, which we term as evolved and advanced economies. It isn't always implied that financial inclusion by itself has led to the advancement and growth however it is a critical component. The policy makers have tried to understand how financial inclusion can be executed including superior economies like U.K. The Reserve Bank of India (RBI) has constituted a committee under the chairmanship of Mr. Deepak Mohanty, to suggest measures to increase financial inclusion

The first question that comes to my mind is why can't financial inclusion happen on its own? Why do we need to make a policy to increase the same? Like any other product or services, why can't it find a market of its own? The reasons are

a) **Financial Exclusion**: It has been found that financial services are used most effective by means of a section of the population. There's a demand for those offerings but it has no longer been furnished. The excluded regions are rural, poor regions and additionally those dwelling in harsh climatic situations in which it's miles tough to provide those financial services. The excluded population than has to depend on informal zone like moneylenders for availing finance at a very high rates. First, high cost of finance implies that first poor person has to earn much more than someone who has access to lower cost finance. Second, the major portion of the earnings is paid to moneylenders and the person can never come out of the poverty.
b) **High Cost**: It has also been seen that poor living in urban areas don't make use of the financial services as they find financial services are expensive. As a result, if financial services are available the excessive costs deter the poor from gaining access to them.
c) **Non-Price Barriers**: Access to formal financial services also requires record of evidence regarding someone's identification, income and many others. The poor people do not have these documents and therefore are excluded from those services. They may also subscribe to the services initially but may not use them as actively as others a because of high distance between the bank and residence, poor infrastructure.
d) **Behavioral Aspects**: Studies in behavioral economies has proven that many humans aren't cozy the usage of formal financial services. The reasons are problem in understanding language, various documents and situations that come with financial services.

WHO ARE THE EXCLUDED AND WHY!

Many people throughout the country are excluded from mainstream banking. The main reasons behind exclusion are:

a) **Lack of information**: Lack of information about the role and function of banks, banking services and products, interest rates etc. stop people from including themselves in mainstream banking.
b) **Insufficient documentation**: Many people even in urban areas not able to reveal their self-identification documents during the opening of a bank account or during taking loans.
c) **Lack of awareness**: many people are unaware of the banking terms and conditions laid down from time to time.
d) **High transaction cost**: Various commercial banks across the globe levy transaction charges on credit or debit transactions, on over utilization of banking services, on cheque books issuing etc.
e) **Lack of access**: Accessibility is a problem from all those people who stay in geopolitically isolated regions. Moreover, as most of the commercial banks are located in the place of towns, people in rural regions have geographical limitations in having access to banks.
f) **Illiteracy**: Because of illiteracy, a substantial number of people are not able to take recourse to banking services.

DATA COLLECTION AND ITS ANALYSIS

Financial Inclusion is an important priority of the Government. The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.

Financial inclusion, broadly understood as access to the formal financial sector for the mar-ginalised and formal-finance deprived sections of society, has increasingly come to the fore-front of public discourse in recent years. Policymakers all over the world are exploring ways and means to ensure greater inclusion of the financially excluded segments of society. There has been renewed global impetus to financial inclusion, particularly following the global financial crisis in 2008. It is believed that financial inclusion could be welfare-enhancing and, as a result, there is greater political support for the entire process.

In India, providing access to formal financial services and products has been a thrust of banking policy for several decades. The current thinking at the global level has also had its echo in India, with policymakers at various levels undertaking a wide range of measures to include the excluded or the under-served within the fold of formal finance. Accordingly, the Government and the Reserve Bank have undertaken a whole host of innovative and dedicated measures to drive forward the financial inclusion agenda.

The big push towards financial inclusion in India has emanated from the Pradhan Mantri Jan DhanYojana (PMJDY) in August 2014 and the Jan DhanAadhaar Mobile (JAM) trinity articulated in the Government's Economic Survey 2014-15 as well as the special thrust on financial inclusion by the Financial Stability and Development Council (FSDC) that includes a Technical Group for dedicated attention to this issue. Thus, the inclusion drive has gone beyond the confines of various financial regulators and assumed the character of a broader national development policy goal.

1. POSITIONS OF HOUSEHOLDS AVAILING BANKING SERVICES

TABLE 1

	As per Census 2001			As per Census 2011		
Households	**Total number of households**	**Number of households availing banking services**	**Percent**	**Number of households availing banking services**	**Number**	**Percent**
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	28,590,693	49.5	78,865,935	53,444,983	67.8
Total	**191,963,935**	**68,230,642**	**35.5**	**246,692,667**	**144,814,788**	**58.7**

Above table shows the data has been taken from census 2001 to census 2011. It reveals that total number of households availing banking services has been increased from 35.5% to 58.7% due to increase awareness about the financial inclusion

2. BANK BRANCHES AND ATMs

At the turn of the century, the expansion of brick-and-mortar branches, despite several efforts, was limited. The low penetration of formal banking led the Reserve Bank to look at financial inclusion as a major policy drive. The slew of measures that followed were the introduction of Business Facilitators (BFs) and Business Correspondents (BCs) and deregulation of the opening of ATMs and branches, while ensuring sufficient coverage to hitherto unbanked areas. Concurrently, relaxations in the BC model were made to bridge the 'last mile' problem. This accelerated the pace of branch opening, with more branches being opened in rural and semi-urban areas. Notwithstanding this development, the number of branches per 100,000 of population in rural and semi-urban areas is still less than half of that in urban and metropolitan areas

TABLE 2

As on March	Number of Branches			Estimated population* (in million)			Branches/ 100,000 population		
	Rural + Semi-urban	Urban + Metro-politan	Total	Rural + Semi-urban	Urban + Met-ro-politan	Total	Rural + Semi-urban	Urban + Met-ro-politan	Total
2001	44,905	20,713	65,618	851	177	1,028	5.3	11.7	6.4
2006	45,673	23,904	69,577	920	195	1,115	5.0	12.3	6.2
2010	53,086	31,072	85,158	980	211	1,191	5.4	15.2	7.2
2014	76,753	40,958	1,17,711	1,044	228	1,272	7.3	17.9	9.2
2015	82,358	43,716	1,26,074	1,061	233	1,294	7.8	18.7	9.7
June 2015	82,794	43,910	1,26,704	1,065	235	1,300	7.8	18.7	9.7

*Population estimates are based on CAGR between Census 2001 and Census 2011 data

3. RBI BRANCH AUTHORIZATION POLICY

In order to extend the banking network in unbanked areas, general permission has been granted by Reserve Bank of India (RBI) to domestic Scheduled Commercial Banks (other than Regional Rural Banks) to open branches/ mobile branches/ Administrative Offices/CPCs (Service Branches), (i) in Tier 2 to Tier 6 centers (with population up to 99,999) and (ii) in rural, semi-urban and urban centers of the North-Eastern States and Sikkim subject to reporting. RBI has advised banks that while preparing their Annual Branch Expansion Plan (ABEP), the banks should allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centers.

4. EXPANSION OF BCA NETWORK

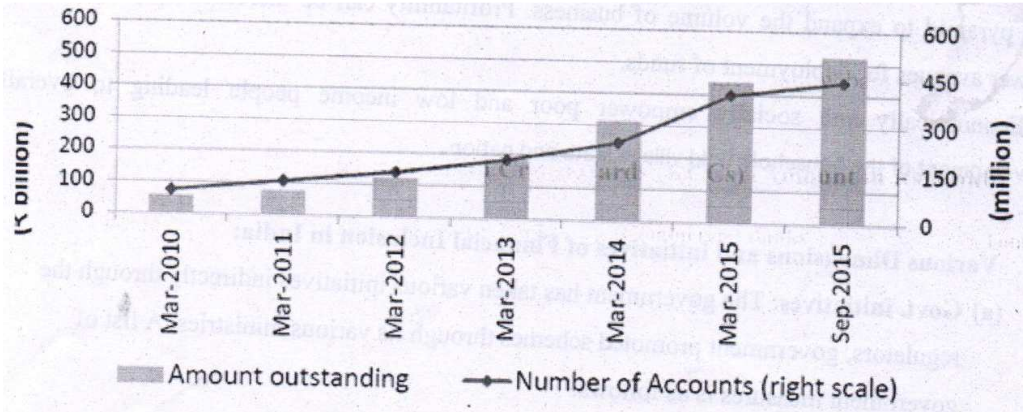
Another significant regulatory change toward financial inclusion has been the relaxing of norms for business correspondents or bank mitras (i.e., agents of the bank) to complement the classical approach of physical branch-led distribution. Business correspondents provide last-mile connectivity for financial services in remote and under banked locations. While initially restrictive in the kind of players who can qualify as business correspondents, the norm has been significantly eased, as it is now open to profit-making entities. Business correspondents are microbankers who are outside of the purview of regulators. They are "protected" by the capital of a sponsor bank, but since they do not provide any capital themselves.

Banks have been advised by DFS to extend banking services to the entire geography of the country based on the concept of Sub Service Area (SSA) comprising of 1000-1500 households. In case of North-East, Hilly States and sparsely populated regions of other States banks may decide the households to be covered by each Business Correspondent Agent (BCA) appropriately. In case of larger Gram Panchayats more than one BCA could be appointed. In case of smaller Gram Panchayats more than one contiguous Gram Panchayat, taking into consideration the geographical area, could be assigned to each BCA.

5. "NO-FRILL a/c or BSBDA":

The Reserve Bank of India (RBI) has also made an effort over the last decade to create basic financial service facilities for the excluded. In April 2005, it identified that vast sections of the population did not have access to banking services due to minimum balance requirements. To gain greater access, RBI advised banks to open basic banking or "no-frills" accounts with no or very low minimum balances and no or minimal charges. Conceding the stigma associated with the nomenclature "no-frills," banks were advised to offer a "basic savings bank deposit account" (BSBDA) with simplified know-your-customer norms.

FIG. 1: PROGRESS NO FRILLS/BASIC SAVINGS BANK ACCOUNTS



6. SWABHIMAAN SCHEME

Earlier, under the Swabhimaan campaign, the Banks were advised to provide appropriate banking facilities to habitations having a population in excess of 2000 (as per 2001 census) by March 2012. The banks identified approximately 74000 habitations across the country having a population of over 2000 for providing banking facilities. As per reports received from Banks, 74351 villages with population of above 2000 have been covered with banking facilities either by branches; Business Correspondents, mobile banking etc. by March 31, 2012.

7. DIRECT BENEFIT TRANSFER (DBT) AND DIRECT BENEFIT TRANSFER FOR LPG (DBTL)

The objective of DBT Scheme is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. Banks play a key role in implementation of DBT/DBTL and this involves four important steps, viz.

- Opening of accounts of all beneficiaries;
- Seeding of bank accounts with Aadhaar numbers and uploading on the NPCI mapper
- Undertaking funds transfer using the National Automated Clearing House - Aadhaar Payment Bridge System (NACH-APBS).
- Strengthening of banking infrastructure to enable beneficiary to withdraw money.

8.

(i) Direct Benefit Transfer (DBT):The scheme was launched in the country from January, 2013 and was rolled out in a phased manner, starting with 25 welfare schemes, in 43 districts and extended to additional 78 districts and additional 3 schemes from 1st July, 2013. Presently DBT in 35 schemes have been expanded across the entire country.

(ii) Direct Benefit Transfer for LPG (DBTL): The Direct Benefit Transfer for LPG (DBTL) scheme was rolled out in 291 districts in the country from 1st June 2013 in six phases. While preliminary results indicated that the scheme met its primary objectives of curbing leakages in the distribution system, the speed at which it was rolled out and inclusion of low Aadhaar districts gave rise to consumer grievances. The Government of India took cognizance of the grievances and directed that the scheme be held in abeyance and constituted a Committee on 7th March, 2014 under the chairmanship of Dr. S.G. Dhande, Former Director, IIT, Kanpur to review the scheme and submit its report to the Government of India after consultation with the stakeholders.

The Committee examined the functioning of the DBTL scheme in depth by meeting all stakeholders and after a detailed study of the scheme design, architecture and implementation structure, audit reports, consumer feedback and interactions with the stakeholders strongly recommended that DBTL scheme should be recommenced as it is a very efficient way to disburse subsidies. The Committee recognizes that although the scheme design is indeed very robust and scalable which prevent leakages, it has suggested several systemic changes and enhancements to mitigate the hardships reported by the LPG consumers.

Union Cabinet in its meeting held on 18.10.2014 decided to re-launch of Modified Direct Benefit Transfer for LPG Consumers (DBTL) PAHAL Scheme from 15.11.2014 in 54 districts and in the entire country from 1.1.2015.

9. RuPay CARD

RuPay, a new card payment scheme has been conceived by NPCI to offer a domestic, open-loop, multilateral card payment system which will allow all Indian banks and financial Institutions in India to participate in electronic payments. The card has been dedicated to the nation by the President of India on May 08, 2014. RuPay symbolizes the capabilities of banking industry in India to build a card payment network at much lower and affordable costs to the Indian banks so that dependency on international card scheme is minimized. Government of India has directed banks to issue Debit cards to all KCC and DBT beneficiaries and that every new account holder should be issued a debit card. A low cost option such as RuPay will help in achieving this objective and consequently help in fulfilling the objective of financial inclusion. The RuPay Card works on ATM, Point of Sale terminals, & online purchases and is therefore not only at par with any other card scheme in the world but also provides the customers with the flexibility of payment options.

10. PRADHAN MANTRI JAN-DHAN YOJANA (PMJDY)

PradhanMantri Jan-DhanYojana (PMJDY) was formally launched on 28th August, 2014. The Yojana envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension. The beneficiaries would get a RuPay Debit Card having inbuilt accident insurance cover of Rs.1.00 lakh. In addition there is a life insurance cover of Rs.30000/- to those people who opened their bank accounts for the first time between 15.08.2014 to 26.01.2015 and meet other eligibility conditions of the Yojana.

TABLE 3: PRADHAN MANTRI JAN – DHAN YOJANA (Accounts Opened as on 31.08.2016) (All Figures in Crores)

Bank Name	Rural	Urban	Total	No of Rupay Card	Aadhaar Seeded	Balance in a/c	% of Zero Balance a/c
PSB	10.72	8.40	19.12	15.33	10.16	33378.51	24.53
RRBs	3.55	0.58	4.13	2.88	1.72	7199.23	21.03
Private Banks	0.52	0.33	0.85	0.79	0.35	1516.50	36.54
Total	**14.79**	**9.31**	**24.10**	**19.00**	**12.23**	**42094.24**	**24.35**

Disclaimer: Information is based upon the data as submitted by different banks/SLBCs

PMJDY has been implemented by banks successfully. As against the estimated target of opening 10 crore accounts, as on 31.08.2016, 24.10crore accounts have been opened out of which 14.79crore accounts are in rural areas and 9.31crore in urban areas. Deposits of Rs. 42094.24crore have been mobilized. 19croreRuPay Debit cards have been issued and Aadhaar seeding has been done in 12.23crore accounts.

CONCLUSION

This paper has examined the relationship between financial stability and financial inclusion to examine whether they are mutually reinforcing, or whether there are substantial trade-offs between them. It is not possible to achieve financial inclusion only by creating investment awareness. Global and national policy makers are committing to increase financial inclusion. Financial product and services are a means to an end, and financial development has to keep in mind vulnerabilities and push back possible unintended bad effects. Investment opportunities in India have to be improved. Increase in financial inclusion would lead to diversification of bank assets. It would lead to reduction in their riskiness; increment in stability of their deposit base, reduction in liquidity risks; and improved transmission of monetary policy. Access to financial services such as savings, insurance and remittances are extremely important for poverty alleviation and development of the country. In order to achieve the goal of total financial inclusion, policymakers and banks have to work together.

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