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Financial Inclusion : A Review

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Abstract

This study attempts to review the extant of financial inclusion and identifies key themes in this field of study, determinants of financial inclusion, measurement and evaluation of financial inclusion and financial development & Financial Inclusion in India. It contains important views of many scholars and learned which gives a broader perspective in one place on the field of financial inclusion. To measure the financial inclusion many indexes are developed like index of financial inclusion (IFI), Global financial inclusion index, Maya declaration and 3 x 3 x 3 matrix approach. Views of financial inclusion development show the picture of financial inclusion status in India using CRISIL inclusix – a comprehensive index for measuring the progress of financial inclusion in the country, down to the district level. Findings make a way forward for achieving cent percent financial inclusion and suggest physical connectivity among all the channels and active involvement of all stakeholders as banks, post offices and SHG's have more potential to nurture the inclusive growth through financial inclusion. Financial inclusion is a win-win opportunity for all service providers and receivers. So everyone should take advantage of its and contribute, towards achieving the goal of cent percent financial inclusion. It surveys literature between 2005 to 2017, consists 75 articles. This time frame is chosen to ensure that the review capture the most beginning and current issues in the field.

Keywords: *Financial Inclusion, Financial Determinants, Financial Measurement, Financial Development, Global Financial Inclusion Index, IFI, Maya declaration, CRISIL inclusix, SHG's*

Introduction

Financial Inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner (Financial Inclusion Committee Report, 2008). Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs-transactions, payments, savings, credit and insurance delivered in a responsible and sustainable way (world Bank, 2014). (Karmakar, 2007) has described in his book-Rural credit and self-help groups: micro finance needs and concepts in India, published in sage publications, New Delhi, that the process of financial inclusion is an attempt to bring the weaker and vulnerable sections of society with in the ambit of the organized financial system. It may, therefore, be defined as the process of enabling access to timely and adequate credit and other financial services for vulnerable groups such as the weaker section and low-income groups at affordable cost. The access to finance by the poor is a prerequisite for poverty reduction and sustainable economic development of a country according to Chitra and Selvam (2013), Determinants of Financial Inclusion : An Empirical study on the inter-state variations in India, accessed from https://ssrn.com/abstract = 2296096. Financial inclusion is an effective policy tool for inclusive growth. In the same liew, Dr. C.Rangarajan (2008), has stated in the report on financial inclusion that financial inclusion must be taken up in a mission mode and suggested the participation of all the stakeholders and beneficiaries in bringing policy changes and undertaking promotional initiatives for achieving 100% financial inclusion in India.

financial sector development fosters economic growth. A mature system supports higher levels of investment and promotes growth in the economy with its depth and coverage. It ensures a smooth and efficient flow of monetary resources, meeting the funding needs required for growth and prosperity as Bhawna Rajput (2017) has mentioned in her paper- financial inclusion and its determinants : An empirical study on the inter-state variations in India, Published in International Journal on Arts, Management and humanities 6(1). This paper analyses the extant literature on Financial Inclusion and Identifies key themes in this field of study, determinants to FI, measurements of FI, FI and development of Indian Economy.

Objectives of the Study

1. To review and analyze extant literature on Financial Inclusion, its determinants, measurements and development of nation.
2. To prescribe direction for further research on financial inclusion.

Methodology of the Study

The reviewed study consists 75 articles which covers the period 2005 to 2018. The time frame is choosen to ensure that the review captures the most beginning and current issues in the field. The study is based on secondary data base, which were found from various journals, websites, working papers, Annual reports and debates etc.

Determinants of Financial Inclusion

Bhatia and Dr. Singh (2015) has explained Demand side & Supply side determinants of financial inclusion in their paper named – Financial Inclusion – A path of sustainable growth, published in international journal of science. Technology and Management, Vol. No. 4, (1). Demand side determinants include literacy levels, awareness about financial products and services and trust in formal banking mechanisms. On another hand supply side determinants include financial products and services provided by financial institutions.

Farnandes et al. (2014), Garg & Agarwal (2014), Subbarao (2009) examined financial literacy and financial education as a principal determinant of financial inclusion during addressing the banker's club, Kolkata in his paper financial inclusion : challenges and opportunities. Financial education & financial literacy is key element of an integral strategy to empower people to make effective use of the financial service network. While financial inclusion works from supply side, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These strategies together promotes greater financial stability.

Frenandes et al. (2014) has done a research work named – Financial Literacy, Financial Education and deco stream financial behaviors, published by Institute for operations Research and Management Science (INFORMS), Maryland, USA. They conducted a meta-analysis of the relationship of financial literacy and financial education to financial behaviors. The correlation studies found that financial literacy have stronger association with financial beheaviors rather than financial education. Study suggested for future for improving financial education. Financial literacy is a stepping-stone towards financial inclusion, so the RBI has initiated a "project financial literacy" with the objective of disseminating information regarding the central bank and general banking concepts to various target groups (Subbarao, 2009).

Ghosh and Vinod (2016) analyzed the interface between gender and financial inclusion in their article-furthering the financial inclusion agenda in India (How Important is Gender), Published in Economic & Political Weekly. The multivariate regression that has been taken on board several household and state level controls, suggested significant disparities in both the access to as well as the use of finance. More specifically, female-headed households are 10% less likely to access formal finance as compared to households that are headed by males. Similar evidence carries over to the use of finance as well. The study also revealed that on average, households with female heads are less inclined to access formal finance and more inclined to access informal finance.

Rajput (2017) has conducted a research work titled with – financial Inclusion and its determinants : An Empirical study on the Inter State Variations in India, Published in International Journal on Arts, Management & Humanities 6(1) and measured that inter-state variations in the access to finance, using credit and deposit penetration ratios and analysed the determinants of financial inclusion using panel data in respect of 29 states spanning over a period from 2006 to 2014. Determinants of financial inclusion classified into (a) dependent variables deposit penetration, credit penetration), (b) Independent variables(population density), (c) other explanatory variables (Average population per bank branch (APPB), Credit deposit ratio (CD)). The study corroborated the phenomenon of higher usage and requirement for financial services with increase in the standard of living.

Singh & Sharma (2018) examined the impact of the socio-economic status on Financial Inclusion using regression model in their paper socio-economic status and financial inclusion : A study of Pratapgarh District of Rajasthan, Published in Indian Journal of Accounting (IJA), vol. 50 (1). The study found that there is significant impact of socio-economic status i.e. income, literacy, types of house and card holders on the access of financial services but in the case of age there is no significant impact. The study concluded that people are using the financial services but still there is gap of achieving inclusive growth.

Measurement and Evaluation of Financial Inclusion

Sarma (2008) has developed the Index of Financial Inclusion (IFI) in her working paper no. 215 named index of financial inclusion published by Indian council for research on International Economic Relations, with three dimensions to measure the extent of Inclusion namely – 1. Accessibility (to measure the penetration of the banking system proxied by the number of bank a/c per 1000 population) 2. Availability (to measure the number of bank branches and number of ATM's per 1000 people) 3. Usage (to measure the extent and frequency of use of banking services by the customers)

Sarma & Pais (2008) has put their efforts in the paper Financial Inclusion and development : A cross country analysis, published by Indian Council for Research on International Economic Relations pp. 1-28. and computed the level of human development and financial inclusion with the help of IFI developed by Sarma (2008) and human development index related to 49 countries of world wide. Levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist. India has scored 29th Position with IFI value of 0.20.

Gupte et al. (2012) constructed a financial Inclusion Index (FII) in their article – computation of financial inclusion index for India and presented this in International Conference on Emerging Economics – Prospects and Challenges (ICEE – 2010) using the available database published by CGAP the world bank group in 2009 and 2010 to measure the extent of financial inclusion in India. This study differs from earlier studies as it incorporates several additional variables. The developed FII for India was computed as a geometric mean of four critical dimensions – outreach (penetration and accessibility), uage, ease of transactions and cost of transactions, following the methodology used by UNDP in computing the HDI in 2010., Two variables – the number of locations to open deposit or loan accounts, are directly proportional to the ease of transactions. On the another side, the rest of ten variables are inversely related to the ease of transactions.

Mundra (2016) has addressed the BRICS workshop on Financial Inclusion in Mumbai and Presented a Paper titled with Financial Inclusion in India – The Journey so far and the way ahead. In the paper he constructed 3 Ps named – Products, Processes and People and elaborated it in 3 x 3 x 3 matrix, to measure financial inclusion. First 3 for the three section approach included in the (i) small and marginal farmers (ii) Micro and small industries (iii) low salary earners of unorganized sectors. Second 3 for the three surpluses approach included (i) investment in the capital market (ii) meager surplus like recurring deposits, SIP etc. (iii) who do not generate any meaningful surpluses. Third 3 for the three institutions approach included (i) established banks (ii) financial intermediaries like NBFC's and MFIs (iii) New institutions like SFBs. A sound inclusion status is possible when required efforts focused on both supply side and demand side of it.

Catalin (2017) has written a article or financial inclusion as a tool for sustainable development and observed that financial inclusion is a tool to promote sustainable development in least developed countries and developing ones and examined the role of Alliance for financial inclusion (AFI) to set financial inclusion targets, using maya declaration, which is the set of core indicators divided into three pillars of FI i.e. access, usage and quality was launched in 2011 at the global policy forum. A number of 59 Maya declaration commitments have been made and by now 32 AFI members set themselves goals and 9 members already complete them. Financial inclusion promotes sustainable development through multiple channels.

Financial Inclusion and Development in India

Shah & Dubhashi (2015) examined and compaired financial inclusion development of India with world in the paper named – Review Paper on Financial Inclusion – The means of Inclusive Growth, Published in Chanakya Internatioanl Journal of Business, Research, Vol. 1 (1) 37-48. The data base provided information for India about adults account penetration, recorded of 35% (43.7% for mean and 26.5% for women). The study highlighted CRISIL Inclusix; a comprehensive index for measuring the progress of financial inclusion in the country, down to the district-level using the similar methodology to other global indices. It combined the three critical parameters of basic banking services – branch penetration, deposit penetration and credit penetration.

Siddiqui (2018) analyzed in his paper – Financial Inclusion in India – A Catalyst for sustainable economic growth, published in Internatioanl Journal of Management and Applied Science, Vol. 4, Issue – 2, significance of financial inclusion in social and economic development of the society as it is strengthing India's positions in relation to other country's economy. India's micro-finance programme is the world's largest and seen as a panacea for poverty reduction and development by the policy makers. The study also highlighted the CRISIL inclusix as higher the score, financial inclusion, higher the level of financial development of the nation.

Joseph and Varghese (2014) has analyzed in their research work titled – Role of financial inclusion in the development of Indian Economy, Published in Journal of Economics & Sustainable Development vol. 5 (11), the effect of financial inclusion in the growth of Indian Economy as it is a key policy concern for a developing nation. To assess the current status of FI on the development of Indian Economy, it analyzed five state bank group and five private sector banks and found that the usage of debit card and credit cards have increase tremendously throughout the study period and banks focused more on rural and semi-urban areas but still the number of people with access to the banking products and services continues to be very limited.

Dixit and Ghosh (2013) analyzed the comparison between different states of India on the basis of indicators of financial inclusion (IFI) and the role of financial inclusion to attain inclusive growth using hierarchical clustering method through dendrogram considering average linkage between the groups. In article named – Financial inclusive growth of India – A study of Indian states published in international journal of business management and research vol. 3, (1). Percentage of population having an account at a formal institution in China is 64% and in Germany is 98% against 35% in India. The extent of state wise financial inclusion has been also described on the basis of financial inclusion index considered 3 parameters – Banking Penetration (BP), availability of banking services (BS) and usage of banking system (BU) and it has found that the percentage of financial inclusion varies from state to state.

Sood and Mukherjee (2016) has observed in the paper – Trigger and Barriers for Exclusion to Inclusion in the financial sector – A country wise secreting that the impact of financial inclusion on economic growth and development using an efficient multi-dimensional financial Index based on two stage principal component analysis considering demand side and supply side factors of financial inclusion. To collect demand side data, 59 countries around the world, sample size has been taken from two years- 2011 and 2014 using survey method and supply side data contained on 47 key indicators for 152 countries for the period 2004-15. Two stage PCA's result indicates that the high income and developed countries occupied the best rank in financial inclusion and vice versa.

Findings - Way forward for Financial Inclusion

Financial inclusion is critical to achieve inclisive growth which itself is a sine quo non for sustainable economic growth and development (Siddiqui, 2018). Having a view of strengthening financial inclusion, RBI's vision for 2020 is to open nearly 600 million new customer's accounts (Shah and Dubhashi, 2015). Chakrabarty (2011) has stated in his speech on financial inclusion and Banks : Issues and Perspectives, observed the major challenge under financial inclusion in the last mile connectivity problem. For measuring this issue and achieving the goals set, banks need to perfect their delivery and business model, adequate infrastructure such as digital and physical connectivity, uninterrupted power supply etc. are available. All stakeholders will have to work together through sound and purposeful collaborations to ensure appropriate ecosystem development, include governments, regulators, financial institutions, Industry associations, technology players, corporate, NGOs, SHGs, Civil society etc. According to the local area, region and state well planning and tailored product should be designed and then with financial literacy the target of financial inclusion can be achieved in its true sense (Chavan and Meshram, 2016) has stated in their article titled – An old Business Driver with transformed services: A way towards sustainability and Economic Development, Cronicle of the Newille Wadia Institute of Management Studies and Research. Revathy and Maheswari (2015) analyzed in the paper named – measurement of financial inclusion, published international journal of Advanced Research in management and social science vol. 4 (4) banks, post offices, SHG's have more potential to nurture the inclusive growth through financial inclusion. It provides them a vast business opportunity that facilitate enterprise and development.

Conclusion

From the above discussion it is concluded that financial inclusion is a proper mechanism which channelize all the resources from top to bottom, for development of the country. It is a key policy concern. To chase the vision 2020 goals regulations and administrator have to put keen endeavors to promote financial literact and education and facilitate to access to financial services for each and every. Although these are engaged in this practice but it is a collaborative and participative issue, with requires active and significant efforts of all. As it is a win-win opportunity. It is a win-win opportunity for the poor, for the banks and for the nation. However, if all stakeholders realize inclusive banking is a good business, then monetary authority, regulatory and policy frameworks that promote accessibility, availability and responsible banking can definitely lead to the desired out comes further.

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