# Significance Of Financial Inclusion For Economic Growth And Its Expansion Opportunities Through Digitization In India

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## ABSTRACT

Financial services help people to come out of poverty by enabling them to invest in health, education, technology, business which may drive development. Many poor people not only in India lack the basic financial services like bank account, insurance, card payment, e-wallets etc. and rely only on cash transactions which is risky and hard to manage as well. World Bank has also made financial inclusion as a key to "growth and development". Financial inclusion (F.I) can be defined "as the process of ensuring access to financial services, timely and adequate credit needed by vulnerable, weaker sections and low-income groups at an af-fordable cost". It is not only limited to access of banking services but also an array of other "financial services" like equity, mutual fund investment, insurance services etc. Further it acts as safeguards from the financial exploitation and binds them to an organized and systematic financial sector rather than left to exploit by unorganized and informal money lenders. The digital technology adding more options for financial inclusion like transferring funds, open e-RD or e-FD, online PPF account, De-mat account and non-banking services like insurance, investing in mutual funds etc. Thus, the benefits of financial inclusion are increasing from account ownership to number of other financial services which reduces the scope of cor-ruption and increase transparency. This study tries to find out the status of F.I with special reference to digital India and discusses the road ahead through new and improved digital technology

**Keywords**

Financial inclusion, Economic growth, Digital technology, Financial services

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## Introduction

**"**Economic growth occurs whenever people take resources and rearrange them in ways that are more valuable" (Romer,1991). In developing countries, the sustainable use of resources is imperative. Most of the countries are using innovative techniques to achieve the objective of maximum output with minimum use of resources for sustainable development. Looking at the growth rate of developing economies then we can easily figure out that it is much better than developed economies, but the real problem is to maintain or achieve higher rate of growth. Thus, to meet this challenge developing economies are focusing on various factors which boost economic growth. There are numerous factors responsible for economic growth viz. International trade, Entrepreneurship, Foreign Direct Investments, Financial Inclusion, women participation, Small and Medium Enterprises (SMEs), Special Economic Zones (SEZs) etc.

The present study focuses on F.I which is one of the significant factors for expansion of economy in "developing countries" and also discusses this current status of financial inclusion in our country and some innovative practices for financial inclusion across the globe. F.I is the mechanism that insures the accessibility for adequate credit and "financial services" on time by fragile- category, lower incumbent, and vulnerable sections with at an economical cost. This is not only limited to access of "banking services" but to a variety of other "financial services" like insurance services, equity and mutual fund investment.

The significance of financial inclusion can be realized with the fact that RBI recommend the commercial banks to make F.I as one of their main objectives. The RBI and "Government of India" are taking various initiative to promote F.I such as founding of "Regional rural banks"( RRBs), introduction to lending for priority sector, opening of no frill accounts, issuing general credit card and Kisan credit cards etc. Even in 2011, Government and Indian banks' association took initiative to launch 'Swabhiman' scheme. The scheme aimed at providing banking facilities within the reach of every village with a population of over 2000 within a year. But nothing much had been achieved with the scheme and in 2014, the Government of India launched another scheme viz. "Pradhan Mantri Jan-Dhan Yojana". The strategy focused at administer financial services for all those who have been termed as excluded section of the society. This scheme is a steppingstone for financial inclusion as it does not only focus on accessibility of banking services but also aimed to provide financial literacy, easy and accessible credit facilities, insurance and pension services etc. In 2014, RBI also approved largest MFI in India to start banking operations based about the suggestions formed by the commission named "Comprehensive Financial Services for Small Businesses and Low-Income Households" (Mor, 2014)

### 1.1. Financial Inclusion: Scenario over the Globe

In the last few years, it has become a main objective of F.I as well as a global issue to administer required "financial services" for public over various "financial institutions".
As per the "Financial access survey 2010", many developed countries look down through idea of F.I. Many developed nations have decided and built an arrangement to cater a variety of "financial services" for the feeble & vulnerable category of the population.
The United States offer credit facilities to people under the Reinvestment Act (RBI, 1997) as an initiative to promote financial inclusion whereas in 1998, United Kingdom had formed a financial inclusion task to monitor the progress in financial inclusion.
In 2004, our country has also constituted a committee for exaggerate the F.L The commission was formed by RBI, India. Lastly, in 2012, the Assembly of Argentine has ordered its Central Bank to frame a policy and started initiatives "to look after and monitor the employment, social progress, equity, and financial stability" (Higgins, 2013).

## Objective

- The paper provides the current level and factors associated with Financial inclusion in India.
- The study also focuses on the various barriers related to Financial inclusion in India and discuss new and innovative ways to improve financial inclusion.

## Methodology

This present research is expressive in nature, depending on the database compiled from various sources viz. RBI, IMF, MOSPI, Findex etc. The entire data is from published sources and hence a secondary data. The data has been extracted from Findex 2017, RBI published data, EY reports, World bank report, NABARD annual report 2017. This study based upon various charts and tables to highlight the status of financial inclusion till 2017 and to display the improvement in the use digital resources over cash in the economy. The study covers broadly the duration of 2011 to 2017 and at last highlight some innovative practices across the globe to show the wider prospect of financial inclusion.

## Level of Financial Inclusion

There are many ways to assess financial inclusion such as to ascertain number of new accounts opened and total number of accounts in the country so far, financial literacy, various initiative by Govt. or central bank to support small financial institutions, inception of new regional level financial institutions, easy availability of finance, number of people uses debit or credit card, gender wise use of banking services and hence more female participation, using of online features for payments, use of ATMs, reduction of informal way of getting credit and more acceptance of formal set up for credit etc.(Larquemin, 2015).

### 4.1 Overall Account penetration

The data shows that overall account penetration has remarkably increased from the last few years. The people with age group of 15+ years are now 80% of total population which was near 35% in the year 2011. The diagram 1 clearly shows the total percentage of accounts has been increased by 18% from 2011 to 2014 to 53% and from 2014 to 2017 it has been further swelled up to 80% which is an increase of 27%.

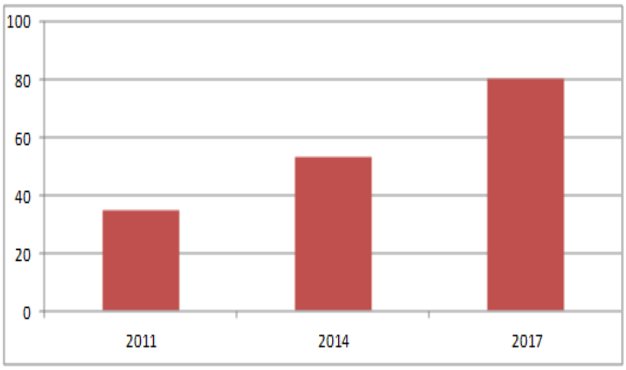
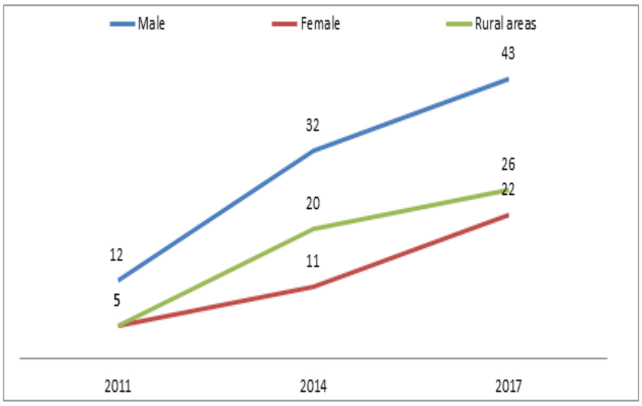



**Diagram 1:** Overall Accounts penetration
Source: Global Findex report 2017 *(15+ age)

### 4.2 Debit or credit card ownership

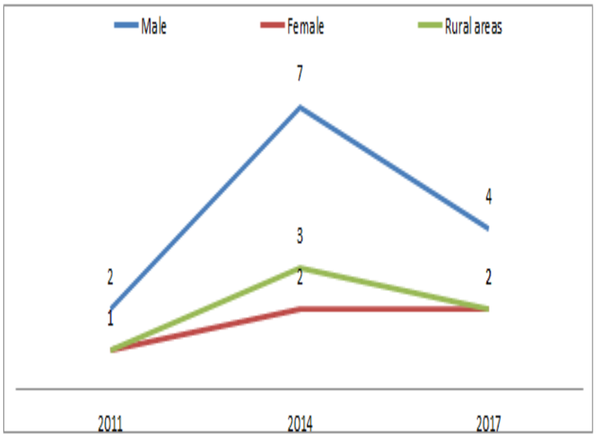
The use of debit cards clears shows upward trend from 2011 to 2017. In Diagram 2(a), the male ownership continues to increase from 12% to 32% to 43% in 2011, 2014 and 2017 respectively whereas the female ownership of debit card was very low in 2011 but gradually picked up the pace and reached to 11% in 2014 and jumped to 22% in 2017. This data clearly states that ownership of debit cards among males and females consistently increased from the last few years. The data also shows the rural ownership has also increased significantly from just 5% in 2011 to 26% in 2017, thereby showing even in rural areas financial inclusion is taking pace.
On the other hand Diagram-2 (b) shows ownership of credit cards has increased rapidly from 2011 to 2014 among both males and females but thereafter ownership of credit card by males has witnessed a steep fall from 7% to merely 4% which is 3% dip in the ownership. However, among females it remained at 2%. Even in rural areas it has not changed much.

**Diagram-2. a.** Debit card ownership (% age 15+)




Source: Global Findex report 2017

**Diagram 2. b.** Credit card ownership (% age 15+)




Source: Global Findex report 2017

## Assessment of Account usage and associated problem

Once the account has opened, the further usage makes it more valuable. There are many accounts which have been opened under various Govt. schemes but remain dormant thereafter. If account is opened just for the sake of showing inflated figures of opened accounts, then it would not solve any purpose of growth and development of an economy. The account usage makes it a part of financial inclusion not mere the opening of account. Apart from its usage many people face numerous problems in accessing accounts such as distance from home to bank, unawareness of banking facility nearby, lack of trust on banking system, no saving to be deposited at banks etc.

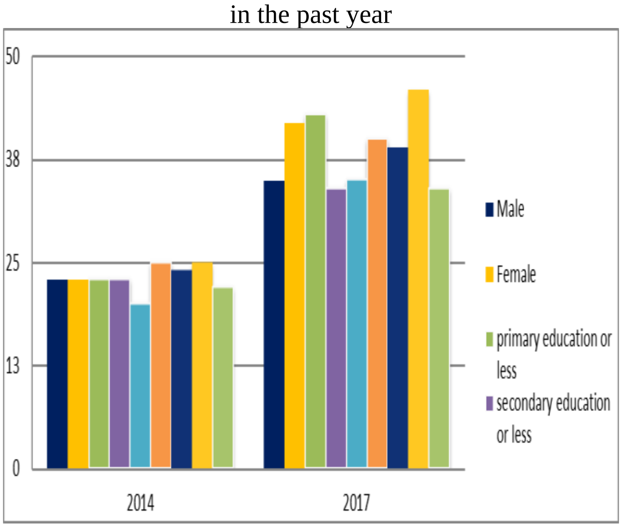
### 5.1. No use of account

Diagram 3 showing the data among different sets of people who did not use account after it has been opened. In the year 2014, the males and females who didn't make any transaction after it has been opened were 23% each and the data swelled up in the year 2017 where 35% of males and 42% of females didn't use their accounts. The similar scenario took place with people who have primary education and secondary education. Both groups were at 23% of no-account use population which has increases to 43% and 34% for the former and later respectively. The situation is not very good even with young adults and older adults. No use of accounts has been increased from 20% to 35% among young adults (age 15-24) and for older adults it has been increased from 25% to 40%. Even rich section of population has not used accounts and no user increased from 25% to mind-boggling 46%. The poor income group and rural sector were not very far in the no account usage list. The rural population of no-account users has been increased from 24% to 39% whereas poor non account using population increased from 22% to 34% in 2017.

### 5.2. Problems faced in operating account

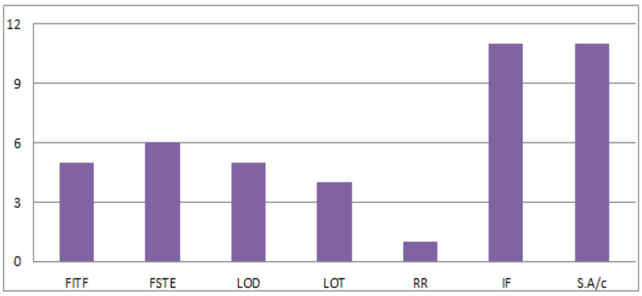
There are numerous reasons why people do not have access to accounts and if they have then why they do not want to access it. The below Diagram 4 shows that main reasons for not having account are insufficient funds and already have some family member's account to save family's income. Both the reasons constitute approximately 11% each. Thus, if some family member has an account in the family, others feels no need to have separate account of own and sometimes family income is not that large that they think to save over consumption. The second most crucial factor for having no accounts is expensiveness of financial services; about 6% people believe that financial services are too expensive, so it is better to live without having them. The other important reasons of not having accounts are distance of financial institution 5%, availability of lack of necessary documents 5%, lack of trust in financial institutions 4% and religious reasons 1%.

**Diagram 3:** Neither deposit nor withdrawal from an account in the past year




Source: Global Findex report 2017

**Diagram 4:** Main Reasons of having no accounts




Source: Findex data 2017

*FITF: Financial institution too far away, FSTE: Financial services are too expensive; LOD: Lack of necessary documents; LOT: Lack of trust in Financial institution; RR: Religious reasons; IF: Insufficient funds; S.A/c: Someone has an account in family
**Respondents are of 15+ age

### 5.3. Easy availability of loans from informal sector or institutions

In a survey on "Access to Finance in 2011, Institute of Microfinance shows that about 77% of the households have access to any kind of financial services. But in the case of access to formal financial institution, they are only 37 per cent and in respect of savings, 57 per cent households have access."

The one of the evident barriers in front of financial inclusion is availability of easy borrowings from the informal setup. However, this informal borrowing is expensive, risky and of long term but still it is preferable in many regions. The reasons for this are easy and ready availability of cash from these sources, not much documentation required and some disbelief or mistrust on formal setup. The Diagram-5 shows that in 2011, the borrowing made from informal sector was lied between 16%-23% amongst different sectors such as labor force 23%, non-labour force 16%, Males 22% , Females 18%, rural 20%, richest 18%, poorest 22%. The range has been increased rapidly in 2014 i.e. 25%-39%. This implied there was lack of trust on formal financial sector but in 2017, the data has not increased, or it was moreover the same with a slight change i.e. 24%-40%. This shows now people have started showing some faith in formal financial sector and there is some improvement in the formal setup in terms of reachability and accessibility.

**Diagram-5:** Borrowed from Informal sector (family & friends)


Source: Global Findex report 2017

## Use of Technology: A road ahead

Research suggests that "digitizing payments can improve the efficiency by increasing the speed of payments and reducing the cost of disbursing and receiving them". Thus, digitization helps people to make transactions through accounts rather than cash and hence provide opportunity for financial inclusion. As per Nambisan, Satish & Wright and others (2017) "it can enhance the security of payments and thus lower the incidence of associated crime".

Muralidharan, Niehaus and Sukhtankar (2016) "Disbursing payments through digital channels rather than cash has been shown to increase transparency and reduce corruption."

Karlan, Kendall, Mann and others (2016). "Moreover, by providing an important first entry point into the formal financial system, shifting to digital payments can lead to substantial increases in saving as well as the substitution of formal for informal saving."

However, it is difficult and challenging too for businesses and governments to assure that digital "payments are better than cash-based" transactions. Digital modes are safe, affordable and transparent but with some potential threats of hacking, misuse, and technical failures etc.

### 6.1 Innovative efforts for financial activities with technology across the globe

- **"**Banks are now able to offer emerging markets innovative solutions, such as PNB MetLife Insurance's JKB Family Protection Savings Bank Account that bundles low-cost insurance protection with the benefits of a savings account."
- "In Kenya, Musoni, a digital micro-finance institution, uses a mobile platform to disburse loans within 72 hours and collect payments."
- "In Bangladesh, the payment company bKash allows people to exchange hard currency for e-money through a network of community-based agents. This can then be used to transfer money to others, receive money, and buy mobile airtime".
- "In Mexico, the lending platform Konfio measures creditworthiness of potential business clients through a proprietary algorithm. By looking at cash flow and willingness to repay through analyzing the online application, social data, e-commerce platforms, and other data sources, they are able to create a credit rating for business that would be previously be turned away."
- "In Brazil, Banco Bradesco launched satellite-linked riverboat banks to cover 1,600km across 11 cities, and served more than 50 riverside communities along the Solimões river. On its very first trip, 200 new accounts were opened."
- "In Kenya, Equity Bank uses Wi-Fi-connected armoured trucks to provide banking access to customers in areas without physical outlets. Within a year of introduction of this roaming banking service, Equity Bank raised its customer base by 134%, equivalent to 344,000 new customers."
- "In Colombia, the telecom company Tigo-Une has converted 13,000 pay phones into payphone banks, allowing underserved customers to deposit coin-denominated daily earnings into their own micro-savings accounts. These accounts can be used to pay utility bills or apply for micro-loans at appliance stores." (EY, 2017)

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