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Financial Inclusion – A Means of Inclusive Growth

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Abstract: The availability of quality financial services in rural areas is extremely important for the growth of the economy since it will enable the large number of rural households to fund the growth of their livelihoods. The growth of the economy is dependent on the growth of the rural market in the country. Therefore greater financial inclusion in these segments is imperative. The objective of this study is to review how financial inclusion serves as a means of inclusive growth. The study is based on secondary data.

Keywords: Financial inclusion, Banking outreach, financial services.

I. INTRODUCTION

The most essential element in the process of development and growth of the country is finance. The economy of a country becomes crippled without the flow of finance and the economic growth is stunted. Monetary resources can be channelized only with the help of proper financial infrastructure. An effective financial system in the form of banks and financial institution offer economic lending and borrowing. Bank is an institution which accepts deposits from the public and makes it available for those who need it. Kerala boasts a well developed banking infrastructure. With progressing time Kerala banking system has attained a high benchmark. In fact, there was a surge of banks in the state following the nationalization of the banks in 1969.

As early as eighteenth century Adam Smith ([1776] 1998: 390-91) had expressed the view about the significant and crucial contribution of high density of banks in Scotland for the invigorating/stimulating development of the Scottish economy. In the early twentieth century Joseph Schumpeter (1912) contends that technological innovation and their successful implementation is promoted and stimulated by well-functioning banks. More specifically Schumpeter argued that the creation of credit through the banking system is an essential source of entrepreneurs' capability to drive real growth by finding and employing new combinations of factor use. On a similar line, Sir John Hicks (1969: 143–45) argues that the inadequate development of financial system led to the time lag between an innovation and its successful implementation. He authenticates this argument with the case of England's capital market development which mitigated liquidity risk and caused the industrial revolution.

Measurement of financial inclusion implies to evaluate the extent of accessibility, availability and usage of financial services like saving, credit, insurance, remittance facilities among many other such services.

II. SIGNIFICANCE OF THE STUDY

The fastest growing service sector in our economy is banking sector. It is the field of drastic innovations and changes. So, this study is very relevant from the point of view of our economy. In Kerala, there is a good banking infrastructure. Kerala has many commercial banks both nationalized and Kerala based, cooperative bodies, Non-Banking Financial Companies, etc. The main role in financial sector is played by the commercial banks. There are more than 50 commercial banks in Kerala.

It must be noted that while all policy players are expected to play their part in ensuring adequate access to financial services, experiences from other countries indicate that where access to financial services has improved, central banks have taken a pivotal role to foster the development of inclusive financial systems.

III. Statement of the Problem

Since the time of classical thinkers like Adam Smith the role of finance in the development of the economy has been realized. Equally important is access to finance by all segments of the society, i.e. inclusive nature of financial system. Some important dimensions of financial inclusion are that all sections of the society should have timely and adequate availability of financial services to ensure access at affordable cost. In India, there has been a lot of academic and public policy discourse in the recent times on financial inclusion. Even within a state, differences are clearly evident between rural and urban areas for the different indicators considered. The presence of informal sector in providing financial services is significant, especially in rural areas. Thus, from a policy perspective, two things are relevant. One is to widen the ambit of policy initiatives under financial inclusion, which will reduce the dependency on informal source of financial services, particularly credit. Second, is to provide greater focus on vulnerable states/regions in providing access to financial services.

In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc. and all this at a reasonable cost.

IV. Objective of the Study

To study how financial inclusion serves as a means of inclusive growth in Kerala.

V. Research Methodology

Secondary research was conducted to review the present status of financial inclusion in Kerala. The data collected through various report published by RBI, World Bank and also from various committee reports submitted to the government of India on financial inclusion.

VI. Review Literature

M P Raihanath, K .B. Pavithran (2014) opinioned that for the success of the financial inclusion initiative what is important is to provide banking services at an affordable cost to the disadvantaged and low income groups.

Anupama Sharma, Sumita Kukreja (2013) concluded that mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while formal financial institutions must gain the trust and goodwill of the poor through developing strong linkage with community based financial ventures and cooperative.

Namila Rajput & Shelly Oberio ((2012) stated that financial inclusion is the entryway for achieving inclusive growth in India. It is a mission made through mishmash of strategies like liberalization of regulatory guidelines, innovative products, encouraging use of technology for achieving sustainable financial inclusion**.**

Neelofar Raina analysed the performance of banks in transforming the financial ecosystem and enabling inclusive growth along key indicators of financial inclusion. It is concluded that financial inclusion is no longer a policy choice but a policy compulsion today and banking is a key driver for inclusive growth.

Vikram K Joshi (2015) The study intends to assess the achievements of Indian states regarding financial inclusion. Factor analysis was used. It is revealed that if the savings of the banks are channelized effectively for providing credits in untapped markets, it will help overall growth of the economy.

VII. PRIORITY SECTOR BANKING AS A DEVELOPMENT TOOL

In developing countries the banking system is used by the government as a development tool for economic upliftment of the people in poor and weaker sections of society. Commercial banks are directed by the government of the country to earmark a certain part of their total credit outlay to finance the economic activities in the priority sector as declared by the government. The banks are required to devise relaxed norms to finance the credit need of the poorer section of the people, small business, agricultural activities small scale industries and other micro, small and medium enterprises.

In India, the government guidelines require the commercial banks to disburse at least 40% of their net credit portfolio to the priority sector and, out of this, 18% should be for agricultural activities. The remaining 22% should be financed to other economic activities as stated above. Thus, bank finance plays a pivotal role in economic upliftment of the weaker sections of society and the overall economic growth of the country as well. Besides credit, these bands are also directed, from time to time, to take up several measures for financial inclusion of the poorest of poor sections of the society in remote rural areas of the country. In the recent past, commercial banks, particularly those who are in the public sector, have been asked to take steps for financial inclusion of the people living in the interior villages of the remote areas across the country. Accordingly, banks have initiated measures to open “No frill” savings bank deposit accounts for individuals in these areas. This is generally a zero balance account with relaxed KYC norms and lower minimum balance. Commercial banks undertake several other financing schemes as social banking measure for various segments of the people who are considered to be poor and downtrodden.

VIII. FINANCIAL INCLUSION

Till 1960s, commercial banks in India were mostly engaged in class banking rather than mass banking and confined their activities within metropolitan and urban areas only. It was only after nationalization of the major banks in 1969, that Indian banks started opening their branches rapidly in the rural and semi urban areas. During the last three decades, the number of branches of commercial banks in the rural areas has gone up substantially. Even then, a large section of the population living in rural and remote areas of the country still remains outside the preview of the banking services. Exclusion of rural households and enterprises, from the mainstream credit and financial markets, has been an issue of prolonged debate in India low levels of economic activity, poor infrastructure, high incidence of illiteracy, etc. are some of the factors that have constrained the ability of the providers of financial services to reach out to the rural and remote areas. Financial inclusion means delivery of financial services, by the financial system at an affordable cost to vast sections of disadvantaged and low income groups. The financial services include provisions of savings, loans, insurance, payments and remittance facilities by the formal financial system to those who were excluded earlier.

Financial inclusion means extending the reach of the financial sector to sections of the society as well as to geographical regions that was neglected in the past.

In order to facilitate the smooth implementation of the Electronic Benefit Transfer (EBT) scheme for routing MGNREGA wages, other social security benefits including proposed cash transfers with respect to subsidies on kerosene, LPG and fertilizers, guidelines were issued on November 30, 2011 to all scheduled commercial banks to ensure opening of Adhar-enabled bank accounts of all the beneficiaries including those residing in villages with less than 2,000 population. Banks were advised to expand their reach in remote locations either through a branch or Business Correspondent (BC) or other modes as every eligible individual should have a bank account for DBT to take place. State Level Bankers' Committee (SLBC) convener banks of concerned states and Lead banks of selected districts were advised in October 2012 to co-ordinate with the state administrator and field level implementing agencies to ensure smooth rollout of Adhar enabled payment systems. To facilitate speedier branch expansion in unbanked rural centers for ensuring a seamless roll-out of the DBT/EBT scheme of the Government of India, instructions were issued to banks on May 28, 2013 that they may consider front-loading (prioritizing) the opening of branches in unbanked rural centers over a three year cycle co-terminus with their Financial Inclusion Plan (FIP) for

2013-16. Various measures were also taken to improve financial inclusion and financial literacy for MSES. In order to ease some of the avoidable inconveniences faced by customers due to some provisions in KYC guidelines, the Reserve Bank initiated steps to reduce the inconvenience a customer faces while opening a bank account or when transferring his account to another place In order to address gender related aspects of empowerment and financial inclusion, Union Budget 2013-14 announced to set up India's first Women's Bank as a public sector bank with 10 billion as initial capital. As a follow up, the Reserve Bank gave licence to the Bharatiya Mahila Bank Ltd. on September 25, 2013. The registered office of the proposed Bharatiya Mahila Bank Ltd. will be in New Delhi.

IX. Making the Banking Sector More Inclusive

Government of India has accorded top priority to the pursuit of financial inclusion. To conclude, a competitive, sound and inclusive banking system is sine-qua-non for a growing economy like India that aspires to be globally competitive. Despite the fact that the year 2014-15 posed several challenges for the Indian banking sector, various proactive and forward-looking policy measures were taken. These policies would enable banks to face the challenges Financial inclusion ranks high in the list of priorities of the Reserve Bank. Accordingly, banks were encouraged by the Reserve Bank to pursue Board approved three-year Financial Inclusion Plans (FIP) since 2010. With the inception of the Pradhan Mantri Jan Dhan Yojana (PMJDY) in August 2014, the relating to asset quality and profitability in the short-term and would also support them to meet the diverse and largely unmet needs of banking services, while successfully competing with global players, in the long-term.

The existing banking structure in India, evolved over several decades, is elaborate and has been serving the credit and banking services needs of the economy. There are multiple layers in today's banking structure to cater to the specific and varied requirements of different customers and borrowers. The banking system has played a major role in the mobilization of savings and promoting economic development. In the post financial sector reforms (1991) phase, the performance and strength of the banking structure improved perceptibly. Financial soundness of the Indian commercial banking system compares favorably with most of the advanced and emerging countries.

As the real economy is dynamic, it is imperative that the banking system is flexible and competitive to cope with multiple objectives and demands made on it by various constituents of the economy. The critical segments are infrastructure, small and medium industry and businesses, agriculture and allied activities. During the period since 1991, 12 new commercial banks licenses have been issued while none of the Indian banks has acquired the size and reach on a global scale. The percentage of population without access to formal financial services is still significant. It is, therefore, imperative that the expansion in the banking sector keeps pace with the dynamism and competitive nature of the real economy. Further, there is a need to relook the structure of the banking system keeping in view the international experience and the current debate on banking structure so as to evolve a structure most suited to our needs while enhancing financial stability.

X. Financial Institutions: Development and Stability

The Indian banking sector experienced relatively lower growth and dip in profitability in 2013-14 due to the sluggish demand for credit and concerns about asset quality. Scheduled commercial banks (SCBs) showed a moderation in balance sheet growth and a fall in net profits, while the trends were divergent amongst other banking institutions with urban co-operative banks and short-term rural credit co-operative institutions other than primary agriculture credit societies showing an improvement in growth as well as health. Long term credit co-operative institutions, however, continued to be a weak spot within the banking sector. While the asset size of the non-banking financial companies (non-deposit taking systemically important) showed an expansion, asset quality deteriorated further during the period of review. Analysis of the interconnectedness indicates that the size of the interbank market in relation to total banking sector assets has been on a steady decline. However, contagion analysis with top five most connected banks reveals that the banking system could potentially lose significant portion of its total Tier-I capital under the joint solvency liquidity condition in the event of a particular bank triggering a contagion.

Table No. 1
District wise distribution of number of branches, Aggregate Deposits, Gross Bank Credit and CD Ratio of Scheduled Commercial Banks – Kerala March 2017(Rs in Crore)

Sl. No	District	All Scheduled Commercial Banks			
		No. Branches	Deposit	Credit	CD Ratio
1	Thiruvananthapuram	725	60941	36651	60.14
2	Kollam	390	25447	16388	64.40
3	Alappuzha	378	26176	11508	43.96
4	Kottayam	501	31962	16167	50.58
5	Eranakulam	999	81245	66601	81.98
6	Thrissur	733	48360	24652	50.98
7	Palakkad	425	20062	12132	60.47
8	Idukki	176	5047	5419	107.37
9	Pathanamthitta	387	34692	8756	25.24
10	Kozhikode	446	24162	16243	67.23
11	Malapuram	448	20816	11206	53.83
12	Kannur	388	23173	11522	49.72
13	Wayanad	121	3023	3504	115.91
14	Kasaragod	220	7397	5565	75.23
	Total	6337	412503	246314	59.71

Source:RBI Quarterly Statistics on Deposits, and Credit of Scheduled Commercial Banks , March 2017

XI. CONCLUSION

The Indian financial landscape is dominated by the banking sector with banking flows accounting for over half of the total financial flows in the economy. Banks play a major role in not just purveying credit to the productive sectors of the economy but also as facilitators of financial inclusion. Although the Indian banking sector exhibited considerable resilience in the immediate aftermath of the global financial crisis, it has been impacted by the global and domestic economic slowdown over the last two years Against the backdrop of a slowdown in the domestic economy and tepid global recovery, the growth of the Indian banking sector slowed down for the second consecutive year in 2012-13. There was also a decline in the growth of profits of scheduled commercial banks (SCBs) as credit off take slowed down and interest rates softened. The asset quality also deteriorated, more perceptibly for public sector banks. On the positive side, capital positions of Indian banks, including public sector banks, remained strong and above the stipulated minimum to face any unforeseen losses. There was also a significant expansion in the outreach of banking in unbanked rural centers, as financial inclusion plans completed three years. The short term target for the banking system could be to lend support to productive sectors facilitating economic recovery without hampering asset quality. In the medium to long-term, sustained improvements in efficiency and inclusiveness remain key areas of concern.

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