

## FINANCIAL INCLUSION'S CONTRIBUTION TO THE GROWTH OF THE INDIAN ECONOMY

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### ABSTRACT

*The main prerequisite for a nation's growth is the circulation and mobilization of finance. For a growing country like India, achieving inclusive growth makes financial inclusion a top policy concern. The study's main goal is to examine the impact of financial inclusion on the expansion of the Indian economy and the steps Indian banks have made to achieve inclusive growth. As one of the key national goals of the nation, the Indian Government and Reserve Bank of India have been working together to promote financial inclusion. This study examines four state bank groups and four private sector banks in an effort to evaluate the impact of financial inclusion on the growth of the Indian economy. The growth rate of the bank was examined in terms of the number of bank branches, onsite and offsite ATMs, and debit and credit card usage. According to the survey, debit card usage significantly grew over the study period, and banks concentrated more on rural and semi-urban areas. Nevertheless, it is depressing to learn that, even years after the introduction of inclusive banking initiatives in the nation, such as the cooperative movement, the nationalization of banks, the establishment of regional rural banks, etc., the number of people who have access to the goods and services provided by the banking system remains incredibly low. This leads to the conclusion that financial inclusion has had a significant impact on the growth of the Indian economy and that there is still room for more inclusive growth.*

**Keywords:** SCB, On-site & Off-Site ATM, Financial Inclusion.

### INTRODUCTION

Financial inclusion refers to initiatives to make financial services and products available and reasonably priced to all people and businesses, regardless of their personal wealth or the size of their organisation. The goal of financial inclusion is to lower the obstacles that prevent people from engaging with the financial system and utilising its products to better their lives. Having universal access to affordable financial services offered by reliable and sustainable institutions is referred to as financial inclusion. Saving, investing, borrowing, and insurance are all part of it. Those who are conventionally classified as unbanked and underbanked are included in the market for the financially underserved. It may also be described as the process of ensuring that economically disadvantaged and weaker elements of society have cheap access to financial services as well as timely and enough credit when they need it. By encouraging a culture of saving among a significant portion of the rural population, financial inclusion broadens the financial system's resource base and contributes to economic growth on its own.

A highly effective tool that aids in the socioeconomic development of a nation like India, which is still in development, is financial inclusion. It aids in lowering poverty, removing financial barriers, and raising people's awareness of how to use their money. So, it can be claimed that increasing financial

inclusion is a crucial process for promoting inclusive growth, which is why financial inclusion is crucial for any country's growth.

## **CONCEPT**

According to research, a healthy and inclusive financial system is associated with more rapid and fair growth. For people with higher and upper middle incomes, there are many different personal finance options available in the form of innovative and financially well-engineered products, but a sizeable portion of the population still lacks access to the most fundamental banking services, such as having a bank account. Therefore, it is essential to offer people simple and affordable institutional financial goods or services, often known as "financial inclusion."

Throughout the previous decade, when studies began to show a direct correlation between financial exclusion and the widespread poverty in developing countries, financial inclusion has come to be seen as the primary goal of many of these countries. Delivering financial services to underprivileged and low-income groups in society at reasonable prices is known as financial inclusion or inclusive financing. There have been many difficult obstacles to overcome in the area of financial inclusion, such as closing the gap between the economically disadvantaged groups in society and the formal financial system, promoting financial literacy, and improving credit delivery methods in order to improve financial economic growth. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non-price barriers in the use of financial services." It is necessary to interpret the word "financial inclusion" in a relative sense. Each country has a different level of financial inclusion depending on its stage of development. India ranks second in the world for homes that are financially excluded behind China, which has surprised many people. The central bank has given financial inclusion high priority in the course of the economy's inclusive growth.

Nevertheless it becomes clear that poverty is still a persistent problem in the majority of developing economies. Since boosting the poor's access to financial services is frequently seen as an effective method to help alleviate poverty and lessen income disparity, financial inclusion is crucial. As it relates to financial inclusion, academics and policymakers have begun to pay increasing attention to the issue of access to financial services for rural residents in every country in terms of development, poverty reduction, decent work, and economic empowerment

## **SIGNIFICANCE OF THE STUDY**

Due to its significance in spreading the advantages of economic growth and development to the "bottom of the pyramid," financial inclusion has recently become a hot topic in academic and policy circles. Financial inclusion will lead to faster and more equal growth, according to research from the last ten years. To ensure that everyone has access to financial services, the government and banks are both launching programmes to promote financial inclusion. As a result, there are a number of gaps regarding the actual implementation of the financial inclusion drive, which should be brought to the attention of the many parties involved in its implementation, including policymakers, state governments, and banks. This study also aids in understanding regional inequalities between rural, semi-urban, urban, and metropolitan areas of India.

## **RESEARCH DESIGN**

This research study is based on secondary data and review of literature. Secondary data was mainly collected with the help of RBI Report, Newspapers, Research Articles, Research Journals, E-Journals, Books and Magazines.

## **OBJECTIVES OF THE STUDY**

- To understand the coverage of financial inclusion in India.
- To list the various measures & initiatives of government and RBI to financial inclusion.
- To find out the implications of Indian Banks in reaching out to the unbanked and backward Areas.
- To analyse the challenges and way ahead for attaining inclusive growth.

## **REVIEW OF LITERATURE**

DrSupravatBagli and PapitaDutta found in their study on "A STUDY OF FINANCIAL INCLUSION IN INDIA" that enhancing financial inclusion in the foreseeable future would be beneficial for governments, financial regulators, and other entities that determine policy. The disadvantaged groups of our society are typically disenfranchised financially. Most of the time, their means of subsistence are not monetized, and they are excluded from the financial system. Suresh Chandra Bihari found in his study on "GROWTH THROUGH FINANCIAL INCLUSION IN INDIA" that everywhere in the world, developing and underdeveloped economies are looking for fresh approaches to combating poverty and integrating their people into the financial system. The primary focus of the nation's banks has been on utilising business correspondents to connect with the unbanked people. Mobile-based business models will, however, prove to be crucial in achieving branchless banking and elevating it to new levels by enabling low cost and real-time transactions across secure networks as telecoms use grows in the nation and expands its reach.

## **FINANCIAL INCLUSION STATUS IN INDIA**

Several committees have evaluated India's level of financial inclusion in terms of the availability of banking and insurance services to its citizens. Just 34% of people in India have access to banking services. Equitable growth is envisioned as a fundamental objective of the Eleventh Five Year Plan (2007–12). The biggest issue in India is achieving inclusive growth since it is very difficult to integrate 600 million rural residents into society. Financial inclusion is among the most effective means of achieving inclusive growth. India's financial inclusion process may be roughly divided into three parts. The First Phase (1960–1990) placed special emphasis on providing loans to the underserved areas of the economy. Also, the poorer societal groups received special attention. As part of financial sector reforms, the second phase (1990–2005) primarily concentrated on strengthening the financial institutions. In this phase, the establishment of the Self-Help Group (SHG)-bank linkage programme and the Kisan Credit Cards (KCCs) for lending to farmers were the primary factors that boosted financial inclusion. With policy backing from the Reserve Bank, the National Bank for Agricultural and Rural Development (NABARD) established the SHG-bank linkage programme in 1992 to foster 'door step' banking and collective decision-making by the underprivileged. The policy objective of "financial inclusion" was made explicit during the third phase, and the focus was on creating a secure environment for saving deposits through "no frills" accounts. The Dr. C. Rangarajan-led Report Committee on Financial Inclusion noted that financial inclusion must be approached as a mission and proposed a National Mission on Financial Inclusion (NMFII), which would include representation from all stakeholders and recommend the overall

policy changes necessary, as well as assist stakeholders in the public, private, and NGO sectors in undertaking promotional initiatives.

## **FINANCIAL INCLUSION AND ECONOMIC GROWTH IN INDIA**

In the late '90s, the IT sector was where the Indian growth story first began to take shape. Since that time, the Indian economy has only grown stronger. India's economy is currently the second fastest-growing in the world. India's GDP exceeding the trillion-dollar threshold in 2007 is regarded as a significant turning point. According to purchasing power parity, India's economy is currently the third largest in the world.

Throughout the past few years, the service sector has increased its GDP contribution to India. This is a really good indication. A higher overall performance has coupled with the incredible growth rate. Not only in IT and ITES and knowledge-based services, but also in top-tier manufacturing capabilities, whether it is for steel, aluminum, refineries, or anything else, Indian entrepreneurs have established a noteworthy global footprint. Domestic consumption, the service sector, high-tech industries that require large amounts of money, human capital, natural resources, and other factors are the key propellers of Indian growth. India's economy is market-driven, and entrepreneurs are at the heart of its success.

## **ROLE OF FINANCIAL INCLUSION IN INDIAN ECONOMY**

The financial system is a driving force behind economic growth. The official financial channels gather savings and unused cash and disperse them to private individuals, corporations, households, and the government for various investment projects and other reasons with the expectation of a return. According to contemporary economic theory, this is the cornerstone of economic growth. It also helps with risk management for enterprises and corporations, improving portfolio diversification, making a variety of financial instruments available to meet the various demands of people and businesses, and having the ability to absorb shock from external economic developments. The system also offers economies of scale and linkages for the many economic sectors.

## **MEASURING FINANCIAL INCLUSION**

The Financial Inclusion Index is one indicator of the degree of financial inclusion. This score is based on the fundamental three characteristics of a diverse financial system.

- **Banking Penetration:** This metric, which is calculated as the proportion of people with bank accounts to the overall population, is unquestionably the most important for gauging the extent of financial inclusion.
- **Banking Services' Availability:** The second criteria, availability of banking services, gives an indication of the number of bank locations that are readily accessible per 1,000 people to provide financial services. The bank outlets could consist of physical locations, ATMs, business correspondents, etc.
- **Use of the Banking System:** The third criteria is to ascertain how often banking services are used in ways other than just opening new accounts. As a result, this is assessed based on the outstanding deposits and credits. As a result, this dimension is measured using the volume of outstanding deposits and credit as a percentage of net district domestic product.

Indian States can be divided into three groups based on the index's value, namely those with high, low, and medium levels of financial exclusion. According to the empirical findings, compared to other Indian States, Kerala, Maharashtra, and Karnataka are some of the States with a greater degree of financial inclusion. On the basis of outstanding deposits and credits, Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim, and Haryana are considered to be in the category of medium financial exclusion. As a result, this dimension is measured using the volume of outstanding deposits and credit as a percentage of net district domestic product. Indian States can be divided into three groups based on the index's value, namely those with high, low, and medium levels of financial exclusion.

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## **CONCLUSION**

After examining the data, it is clear that financial inclusion is essential to the social and economic advancement of society, but there is still a long way to go until the desired results are realised. Although there is still a long way to go before reaching the targeted goals, financial inclusion is unquestionably having a good impact. The financial system performs the function of intermediation and serves as a buffer in the allocation of savings for economic activity. Financial systems' tasks include managing the financial liquidity to prevent inflationary pressures and to release adequate liquidity to support growth. India must consider inclusive growth in order to stand out on a global scale, and financial inclusion is essential to inclusive growth. Today, it is still true that almost half of Indians rely heavily on money lenders because they lack access to official financial services. If a country's weaker sector can become financially independent, it will be able to develop economically and socially.

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