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Study of Role of Financial Institution in Financial Inclusion

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ABSTRACT

India is one of the largest growing economies in the world. Financial inclusion is providing financial services at an affordable rate to all people. It comes into existence in the year 1950 establishment of Reserve Bank of India. There are various incentives which have been undertaken to increase financial inclusion in India. With the nationalization of commercial banks. And the formation of NABARD Self-help Groups and Kisan credit bank. After 2000, the schemes like Swavalamban swabhiman have been launched to increase its role.

The schemes by government of India like PMJDY and Startup India schemes.

Financial inclusion helps in forming cashless economy and increase capital formation and increase economic growth of the country. It provides business and growth opportunities to the Intermediaries. This system also provides affordable services to the poor and played a vital role in improving country financial services.

Keywords— Financial Inclusion, Services, Economic Growth

I. INTRODUCTION

India is one of the largest growing economies in the world. However, Growth is uneven and discrete. It is necessary to have inclusive Growth; there is a requirement of resources, .and for this financial inclusion is required. Inclusive Growth is a relatively new term to India. As it got attention in the 11th year plan.

Financial inclusion is the delivery of financial services at affordable costs to various sections of disadvantaged and lower-income groups. It refers the fiancé should be equally accessed by all the income groups and helps to reduce poverty. A well-established financial system reduces information and transaction costs. Access to finance helps to generate more employment and production facilities.

India is a diverse economy various scholar earlier tried to study the measurement of financial inclusion in India (Dixit, R., & Ghosh, M. 2013).

Financial inclusion includes microcredit banking no fills accounts, saving products self-help groups etc.

NFA =+ Banks + OFIs+ MFI+IT= Financial inclusion
Here, NFAs = No frills bank account.
OFIs= other financial intuitions
MFI- micro-financial institution
IT – information technology

Thus, it is important to have financial inclusion to provide equal financial access and remove inequalities.

1.1. History of Financial Inclusion in India

Reserve bank of India and government plays an important role in promoting financial inclusion in India for economic Growth. Before the 1990s, several initiatives have been undertaken. (Raman, A. (2012)

• In 1955- Creation of State Bank of India state bank of India was formed on July 1 1955.

SBI launched Pradhan mantra Jan-Dhan Yojana. In the year 2020, SBI, has created Financial inclusion and micro-market (FI&MM) vertical within the bank exclusively provide services to the people in the country.

• In 1969 and 1980 – Nationalization of commercial banks in India- Nationalization of banks happened in India in 3 phases. The first phase was the nationalization of imperial banks as the state bank of India. The second step was taken when the seven subsidiaries banks were nationalized as the subsidiaries of state bank of India. The three major steps were the nationalization of 14 commercial banks. And in the year 1980 the commercialization of 6 more banks. (Nationalization of commercial banks in India)

• In 1982- National Bank for agriculture and development
National bank for agriculture and development was formed on July 12, 1982, by transferring the agricultural credit functions of RBI. The main function of NABARD was to promote agricultural and rural development through participative financial and non-financial interventions.

The initiatives by the NABARD for the financial inclusion are as follows-

1. Credit linked capital scheme- the scheme mainly aims to provide technology up-gradation to the SSI units.
2. Deen Dayal Antyodaya Yojana- national rural livelihood mission day- NRLM – this is the flagship program by the government of India. For promoting

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finance reduction through building strong intuitions of the poor, particularly women enabling institutions access range of financial services. (NABARD)

• In 1992- Self – help groups

The self-help groups were started and promoted by the NABARD in the year1992. From that point, the self-help groups as emerged as one of the primary microfinances in India. Self-help groups are predominately women-focused. It is one of the first steps towards feminism of India in the banking sector. It helps to build entrepreneurial skills, risk mitigation, it also provides roads to decrease poverty. (Kropp, E. W., & Suran, B. S. (2002)

• In 1998- Kisan Credit Card

The finance minister launched the Kisan credit card scheme in the year 1998-99. The scheme was further implemented by public sector banks, commercial banks and regional rural banks in the country.it is one of the most successful schemes and innovative credit distribution system in India. (Dharmendra Mehta & Hitendra Trivedi & Naveen K Mehta, 2016.)

• In 2010-SWAVALAMBAN

Swavalamban was launched on September 26 for workers of the unorganized sector. The scheme was launched mainly for the unorganized workers. The worker under the scheme contributes the sum of Rs 1000 to Rs 12000 per year. The government will contribute 1000rs p.a. (Raman, A. (2012).

• In 2011-SWABHIMAN

The central government launched the scheme on February 10 intending to achieve financial inclusion. Under this scheme, five crore household. Would be provided access to banking. (Raman, A. (2012).

• PFRDA (Pension Fund Regulatory & development authority)

PFRDA effort was to provide sustainable and financial literacy and awareness campaign in India. (Raman, A. (2012).

The few schemes which are launched by the government of India for financial inclusion in India.

1. Pradhan Mantri Jan Dhan Yojana (PMJDY)- 2014

Pradhan Mantri Jan Dhan Yojana was launched under the national mission for financial inclusion on August 28 2014. The main aim of the scheme is to provide universal access to all the banking facility to every household. It has also provided three social security schemes in India.

- Pradhan Mantri Jeevan Jyoti Bima Yozana
- Pradhan Mantri Suraksha Bima Yojana
- Atal Pension Yojana
- Pradhan Mantri Mudra Yozana

In the year 2018, the government has decided to extend the program and change its focus from every household to every adult bank account. (PMJDY)

2. Stand up India Scheme- 2015

Stand up India scheme was launched by the honorable Prime Minister Narendra Modi on 15 the august 2015 to facilitate loans of Rs 10 lakhs to Rs 100 lakh to at least schedule case and schedules tribe borrower. (Stand up India)

II. LITERATURE REVIEW

2.1 Financial Inclusion

Financial Inclusion is considered to be one of the most significant facets to facilitate the growth and development of economies. Financial Inclusion can be defined as a method of assuring access to timely and wide range of financial services, especially to low-income and weaker groups at a very reasonable cost (Rangaranjan, 2008). Financial Inclusion is aimed to aid only the weaker sections or say excluded sections of the society. It should not be confused that its purpose is to provide affordable financial services to all. Through the means of Financial Inclusion, the vulnerable groups are able to access a plethora of reasonable and affordable financial services that helps provide them with a better standard of living. Moreover, it plays a key role in the process of eradicating poverty and promoting the inclusive growth of the nation (Garg & Agrawal, 2014).

A well-developed and advanced financial system that is made available to all, induces increased saving rates, reduces communication and transaction costs, influences technological innovation, investment decisions and long-run growth rate (Dixit & Ghosh, 2013). In order to extract full-fledged benefits of Financial Inclusion, the Government of India has taken many measures that favors the underprivileged section of the country.

2.2 Factors Affecting Access to Financial Services

The primary aspect of Financial Inclusion is to provide financial/banking services like bank account (savings, current) insurance product, credit facility to the backward section of the country and the secondary is to make it available on time and at reasonable cost. There are many factors that restricts the access of financial services to the excluded section of the society. Some of them are mentioned below:

2.2.1 Bank Charges and the Level of Income

The level of income generated plays an important role in accessing the financial services. Many services have been formulated for the underprivileged section of the society but the income disparity still makes it difficult for them to make use of them. Furthermore, there are many indirect and hidden bank charges in India that demotivates the weaker section to avail financial services in fear of incurring huge expenses.

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2.2.2 Location

The place of living also acts as an obstacle for the poor people to access the available financial services. The commercial banks majorly operate in commercial areas and have their branches allocated to areas with a higher prospect of generating large sum of profits. This creates a barrier as most of the low-income and weaker section of the society is based in rural and backwards area. Additionally, lack of transportation facilities and inferior infrastructure makes it almost impossible for them to make use of these services.

2.2.3 Gender Discrimination and Lack of Legal Identity

The excluded section of the society comprises majorly of minorities, refugees, political and economic migrant. Most of this section do no own documents verifying their legal identities, like identity cards (Aadhar card, PAN card, etc.) and original birth certificate. This situation creates a problem for them and as a result they are not able to access financial services. Women on the other hand face many more hindrances in the form of lack of financial independence, ownership of assets and full dependence on their husbands in regards to decision making. Years of repression makes it now difficult for them to stand and make use the services offered to them.

2.2.4 Lack of Awareness and Knowledge Regarding Financial Services

Major proportion of the weaker section is illiterate and lacks basic education. This leads to them not being aware of the importance of financial services like cheque facility, bank accounts, insurance, overdraft and loan facilities. By helping them gain financial literacy, they'll be able to use proper knowledge and facts pertaining to financial services, and make wise decisions regarding the same.

2.5 Nature and Size of Business

The type and size of the business also affects the access to financial services. Small, unorganised and unregistered organisations are not preferred by the banks due to issues like credibility, undefined income source, lack of stability. This too becomes a big obstacle for the excluded section to avail and access financial services (Iqbal & Sami, 2016).

2.3 Financial Institutions

Financial Institutions play an important role in the economy. They act as intermediaries that initiate saving and ensure allocations of sufficient funds among the people in the economy. They can be classified as banking and non – banking institutions in India and are of huge value (Pathak, B. V., 2010). They ensure credit availability to all. Financial institutions can be classified into the following –

2.3.1 The Central Bank – Reserve Bank of India (RBI)

It was established in the year 1935 and is the main bank of India. It ensures and controls the credit policies in India and ensures complete stability in maintaining the money supply within the country. It regulates the monetary policies within the country and regulated the working of the other financial institutions within India. It can be termed as a building block of the banking sector within our county. They lend medium- and long-term credit to other banks and financial institutions in India. They are also responsible to issue the currency notes within India and play a measure role in monitoring the inflation and deflation in the economy of the country (Bansal, M. K., 2017).

2.3.2 Commercial Banks (Banking institutions)

The commercial banks are further categorized as scheduled and nonscheduled banks and play a measure role in lending money, accepting deposits and charging interest rate on the loans given, these are also called banking institutions and are also classified into public banks, private banks, rural banks and foreign banks. Commercial banks constitute to be a large part of the financial institution within India. These banks play an important role in the smooth functioning of the economy and is especially important for the public since they depend largely on commercial banks for lending money. They provide short term credit facilities to the public, including small industries, entrepreneurs, agricultural and service sector. It facilitates credit creation within the country (Ibrahim, M. S., 2011).

- Scheduled Banks – these are those banks that are included under the Second Schedule of RBI Act 1934. It includes public banks like PNB, Union Bank of India, private banks like HDFC Bank, ICICI Bank and Foreign Banks like Citi Bank, bank of Tokyo.
- Unscheduled Banks – those banks not included under the Second Schedule of RBI Act 1934. (Ibrahim, M. S., 2011)
- Regional Rural Banks – these include both regional rural commercial and cooperative banks that have been set up to help in the growth and development of the rural sector in India. They form the backbone for financial lending in the rural area. These banks are called as the small man's bank and have played a major role in building the rural credit structure. Before the establishment of this, the rural people generally were dependent on the moneylenders to avail credit facilities. They were exploited by the moneylenders and were often force to pay high interest rate (Archana, H. N., 2013). The aim of the rural bank was to provide cheap credit facilities and encourage the growth of the rural and backward sectors of India. These industries have done a great job and have contributed to the massive expansion of the rural industry. They not

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only aim at providing cheap credit but also aim to spread across all parts of India including the remote and small villages.

2.3.3 Mutual Funds

Mutual funds were established in India in 1963 with the establishment of the UTI i.e. Unit Trust of India. The aim of this was to get many investors with common goals to pool in their money together and then invest it in the capital market instruments such as the shares, debentures and various other securities. The returns that they earn from this is then distributed among themselves in proportion to the contribution made by them. Many commercial banks have started getting involved in Mutual Funds like Canada Banks. (Singh, B. K., 2011)

2.3.4 Insurance Companies

Insurance companies are those that provide protection against assets from getting destroyed in future. They help to protect the risk associated with these assets and are essential part of the general public. There are various sorts of insurances available in the market like life insurance, marine insurance, vehicle insurance, fire insurance. They have been a very integral part of the life of the people and are provided by many commercial banks. the insurance sector became prosperous and widespread when the government started allowing FDI Investments in this sector to a maximum of 26 percent. This led to emergence of many private insurance policy providers in India such as the Bajaj Alliance Life Insurance, HDFC life in India.

2.3.5 Credit Rating Agencies in India

These agencies provide wide range of activities like mutual consulting services, risk management, providing training to the employees and then managers in order to ensure an efficient and effective management. They also provide services to the mutual fund sectors. The mainly focus on the improvement and growth of the agriculture, health care industries and infrastructure sector. There are mainly 2 credit rating agencies in India which are the ICRA and CRISIL.

2.3.6 Specialized Financial Institutions

These institutions look into the working of specific sectors of the economy and therefore contribute to the overall development of the economy. They include the following

- Export – Import Bank of India – it was set in the year 1981 with the main aim of insuring and providing protection to the import and export industry of India. Apart from this it also provides financial assistance to the agriculture industry. It has organized many schemes for the protection of the agriculture industry such as providing term loans for modernization and equipment purchase. It provides various schemes for the smooth functioning of the export and import industry within the country.
- Small Industries Development Bank of India – it was established in the year 1990 and its most important function is for the growth of the small-scale industries in India. They aim to provide support to the small-scale industry and entrepreneurs in India and focuses on obtaining prosperity in these sectors. They aim at the infrastructural and technological development of small and medium sized industries in order to make them self-sufficient. This play a huge role in the economy of India since they cater to the needs of a large population of the country by aiding them to become independent. They also focus on women empowerment and show great support to the agricultural business sector of India.
- National Housing Bank – this bank aims at the growth of thew housing sector and provide financial loans with respect to it. Its aim is to ensure that the people are provided with enough credit facilities so that they can afford housing facilities for themselves.
- Board for Industrial & Financial Reconstruction – it was established in 1987 and the aim of this bank is to support the industrial and financial sector. The aim it to provide cheap finance to all and ensure the development of all the industries in the market.

2.3.7 Micro Finance

Micro finance institutions are those that aim at the growth of the rural industry in India. They include rural banks and rural cooperatives. Rural cooperatives are those that have been set with the aim of initiating the small workers and farmers to become self-reliant and independent. They also prevent the small workers from getting exploited from the upper-class people in the rural areas. It encourages a systematic and equal growth for all the industries on the market. Micro finance institution ensures financial inclusion. Their main functions are providing small scale credit facilities to low income families and households. In order to encourage the micro finance development, the Government has formed the Micro Finance Development and Equity funds to provide and support the Micro finds institutions in India. The aim was to ensure that the micro finance intuitions obtain sustainability in the credit facilities and they are able to provide affordable credit and equity facilities to the people. Apart from this Microfinance – Non-Banking Finance Companies have also been set up with the aim of providing credit, micro – insurance and other financial facilities to the poor and rural people of India. (Archana, H. N., 2013)

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In order to encourage sustainable growth, many SHG (Self Help Groups) have been formed. They are registered or unregistered groups that is formed on voluntarily basis by a group of small entrepreneurs who have common objectives (Archana, H. N., 2013). They raise funds on their own and form the common fund which is then used by them all in case of emergency. It is sort of a mutual help foundation formed by these people. The objective of this to ensure sustainable growth, improve the capacity building and ensure the growth of the weaker section.

2.4 Benefits of Financial Inclusion

2.4.1 Access to Financial Services

The underprivileged section of the society will be able to avail banking services like bank account, cash receipt and payment, statement of account and balance information. Everything will be documented with a process same for all. This will enhance stability and transparency.

2.4.2 Promotion of Cashless Economy

As the backward sector of our society through the means of Financial Inclusion avails financial services, more and more will the Indian economy shift to cashless system of payment. There will be a great deal of reduction in the cash economy when majority of the population will be making use of banks to make payments.

2.4.3 Ease in the Transfer of Incentives and Subsidies

One of the most important advantage is the ease with which economic benefits provided to the weaker section of the society will be made available to them. Though the Government of India has taken many measures to uplift the poor section of the country, the subsidies provided often do not reach the intended recipient. By using a structured source of payment, this problem will soon be over as the benefits will be directly wired to the beneficiary's account and not by cash payments. This will also reduce the distribution cost of subsidies.

2.4.4 Capital Formation and Economic Growth

Money in hand, is money spent. As the Indian economy will shift to banks as a primary source of payment, it will induce savings. This will create a habit of savings in the people which will in turn help capital formation in the country. Through this, India's economic resources will boost and grow further.

2.4.5 Business Growth and Opportunity for Intermediaries

Through Financial Inclusion, there will be a growth opportunity for the intermediaries. Owners of grocery stores, individual petrol pump owners, insurance agents, etc. will be used at large. They will be able to generate additional income without additional investments and add on to their list of clients. By working in cooperation with the banks of our nation, they will feel a whole new level of dignity and respect.

2.4.6 Structured and Formal System

Financial Institutions will be able to access the financial history and records of an individual which would aid in the decision-making process. This will also help in the most effective usage for consumer protection and promote financial knowledge and awareness.

III. OBJECTIVES OF STUDY

- To understand the financial institutions of India
- To study the role of financial institution in financial inclusion and its benefits

IV. SIGNIFICANCE OF STUDY

This research paper's main objective is to give an improved perspective of the role of Financial Institutions in Financial Inclusion with respect to India. Besides, it also aims to study how vital a role do Financial Institutions play in Financial Inclusion.

This research will help the researchers to fill in the gap and provide further literature as an addition to assist them in their future study. This, research will provide the most recent implications in respect to examining the relationship between financial institutions and financial inclusion and how it has evolved over the past years. Moreover, this research also aims to give beneficial information to the concerned authorities about what shortcomings are currently being faced in India regarding Financial Inclusion and how to overcome this. This will also aid the Institutions likes banks to take necessary measures and help narrow income disparity by carrying out the process of Financial Inclusion by the most effective and efficient of ways.

V. METHODOLOGY

The study is qualitative study based on data collected from the secondary sources such as Emerald, Scopus, Jstor, and google scholar. Information has been also gathered from books, articles, that aid the study of Financial inclusion. Researches also looked at the articles published by the various institutions to understand the financial inclusion. The researchers have also looked at the government reports and websites to understand the current scenario of the Financial inclusion.

VI. CONCLUSION

A manifestation of social Inclusion is financial inclusion. All the five-year programs have a Financial Inclusion target. Since financial inclusion is a vital component of the inclusive growth envisaged for the

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economy's overall development, both the public and private sectors are working together to leverage the strengths and drive financial inclusion in the post-merger period, the performance of RRBs in India improved. Although the number of RRBs has decreased, network in the division has increased. There was a rise in the number of districts covered by the RRBs during the post-merger era. Since the amalgamation took place in the year 2005-06, overall capital funds increased tremendously. SHGs have done well in the region, although there are numerous initiatives to alleviate poverty and empower rural people. The Strategy offers a new vision of inclusive MFIs and has played a key role in commercial banks and is a potential mix of formal and non-formal institutions that are involved in channeling funds for loans to poor families

IMPLICATION

- This study will help institution to gain better knowledge on financial institutions and financial inclusion
- This study will help in conducting a further research with primary Data and more variables into consideration

LIMITATION

Since the study is based on the secondary data, it was not easy to find a course of reliability and information specifically related to this topic. Also, connecting the main points to the research statements.

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