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FINANCIAL INCLUSION BY COMMERCIAL BANKS AND ITS IMPACT ON ECONOMIC DEVELOPMENT OF INDIA

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Abstract

Financial inclusion intends to help the poor people to secure financial services and products at reasonable costs such as deposits, fund transfer services, loans, insurance, payment services. It strengthens the availability of economic resources. The present study aims to examine the impact of financial inclusion on the growth of the economy for over nine years. Secondary data is used which has been analyzed by multiple regression models as a main statistical tool. Results of the study found a positive and significant impact of the number of bank branch and Credit deposit ratio on GDP of the country.

Keywords: GDP, ATMs, Banking Sector, Financial inclusion, Credit Deposit Ratio, SCBs.

Introduction

India is the second-largest country in the world in terms of population in which nearly 72 percent living in rural areas. Hence the rural India is one of the reasons for poverty. The economic development of any country depends on the infrastructure facility available in the country. The financial system plays a significant role in the economic growth of a country by mobilizing the surplus funds and utilizing them effectively for productive purposes. The financial system acts as a link between the savers and the investors, thereby facilitating the flow of savings into industrial investment. The organization/structure of the Financial System consists of Financial Intermediaries, Financial Markets, and Financial asset instruments. In India among these financial intermediaries the role of the banking system and the Scheduled Commercial Banks (SCBs) comprises of Public sector banks, Private sector banks, Foreign banks, Regional rural banks, Cooperative banks, and other non-banking financial institutions. The role of the banking system plays in a country can be quiet but it is the most significant part of the country's economy. The Reserve Bank India (RBI) is the central banking institution of India and controls the monetary policy. Hence RBI has been continuously stimulating the banking sector to extend the banking network both by setting up of new branches and installation of new ATMs.

While inclusive banking began, in spirit, with the nationalization of banks in 1969 and 1980 in India, the real thrust on financial inclusion came in 2005 when the Reserve Bank of India highlighted its importance in the annual policy statement of 2005-06. It induced the bankers to work towards reaching out to the excluded masses, offering banking services to the needed people. Because, the mass of excluded people from the formal banking system that hindered economic growth. In this regard RBI began to persuade banks to include Financial Inclusion as a business objective. Financial inclusion is globally considered as a critical indicator of the development and well-being of society. Financial Inclusion as a policy initiative entered the banking regime only after the recommendations of the expert committee on financial inclusion by Rangarajan in 2008. It began to attract the attention of stakeholders when banks realized the significance of connecting with more people for business growth. According to C. Rangarajan Reported in 2008 financial inclusion is "The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost. According to Asian Development Bank (ADB 2000), financial inclusion defined as the Provision of a broad range of financial services such as deposits, loan payment services, money transfers, and insurance to poor and low-income households.

Financial inclusion intends to help people secure financial services and products at economical prices such as deposits, fund transfer services, loans, insurance, payment services, Financial inclusion enhances the financial system of the country comprehensively. It strengthens the availability of economic resources. Most importantly, it toughens the concept of savings among poor people living in both urban and rural areas. This way, it contributes to the progress of the economy in a consistent manner. Many poor people tend to get cheated and sometimes even exploited by rich landlords as well as unlicensed moneylenders due to the vulnerable condition of the poor people. With the help of financial inclusion, this serious and hazardous situation can be changed. Financial inclusion engages in including poor people in the formal banking industry to secure their minimal finances for future purposes. There are many households with people who are farmers or artisans who do not have proper facilities to save the money that they earn after putting in so much effort. Because of the real need to enhance financial inclusion, particularly in developing countries with a high level of financial exclusion especially among the very poor people, there is a need to have policy alignments that favor the financial inclusion of all excluded people, especially those who are very poor. It is absolutely beyond any doubt that financial access for the masses in India has significantly improved in the last three and a half decades. But the basic question is not enough to the expectations. Hence, it is an attempt to study the progress of financial inclusion and its impact on the economy of India.

Review of literature
Ovidius Evans Olaniya Lawarson (2017) examined that the links between financial inclusion and economic output base on the steps taken by the Nigerian Govt. Their study found that financial usage has higher casual links with the economy and its sectors that financial access. Their studies conclude that financial inclusion was a potent accelerator of economic progress.

Kapparov, Kassymkhan (2018) suggested that their study on measuring financial inclusion should be a nationwide goal to measure the steps taken in Kazakhastan. They also suggested that the coordination among the educational institutions and the financial sector. Their study encouraged further studies in this aspect and considering local customs and traditions in credit to easy under understanding of the targeted segment of the people.

Ani Kumar Bhuyan (2018) has studied that Financial Inclusion can measured as CRISIL Inclusix score. In India, it is very low as a comparison to other countries. But considering statewide financial inclusion the level of financial inclusion in some states were having a good financial inclusion level, some of the states were less level of index. The study indicated that the rank of financial inclusion is 3 for Tamilnadu when compared with 35 states and union territories of India.

Sudarshan Maity and Tarak Nath Sahu (2018) have an attempt to be made to measure the financial inclusion status with the availability of bank branches including off-site ATMs to cover the unbanked areas and two accessing products such as deposit accounts and credit accounts which measure financial inclusion.

Objectives
The main objective of the present study to study the impact of financial inclusion indicators on the growth of the Indian economy.

Research methodology
The present study is primarily analytical in the sense that it analyses various financial variables based on secondary data. The data will be collected from the economic survey, journals, magazines, research articles, RBI publications, Government reports, etc. The relevant websites were visited for the collection of necessary literature and data. The study covers 9 financial years from 2009-10 to 2017-18. The data are analyzed by using appropriate tools such as percentage, correlation, and Regression analysis.

Results and Discussion
To succeeding the financial inclusion the role of Scheduled Commercial banks has played a major role. During the study period how the impact of financial inclusion indicators on the growth of the Indian economy by considering the selected variables collected from the secondary sources like RBI. Data has been analyzed by applying multiple regressions as a main statistical tool. Multiple regression analysis has been used to establish an

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empirical relationship between Financial Inclusion and the growth of the country. The present study taking Gross Domestic Product (GDP) as a dependent variable and independent variables are Number of Bank Branches in the country, ATMs growth rate across the country Credit deposit ratio.

$$Y = b0 + b1X_1 + b2X_2 + b3X_3 + e$$

Where Y= Gross Domestic Product (GDP)

X_1 = Number of Bank Branches

X_2 = ATMs growth rate

X_3 = Credit deposit ratio

Hypothesis of the study

Based on the objective of the study, the following hypothesis has been formulated:

Ho1. There is no significant impact of financial inclusion on the growth of the Indian economy.

H_A1. There is no significant impact of financial inclusion on the growth of the Indian economy.

Sub-hypotheses

Ho1.1. There is no significant impact of the Number of bank branches of Indian GDP.

H_A1.1. There is no significant impact of the Number of bank branches of Indian GDP.

Ho1.2. There is no significant impact of the ATM growth of the GDP of the Indian economy.

H_A1.2. There is a significant impact of ATM growth of the GDP of the Indian economy.

Ho1.3. There is no significant impact of the Credit deposit ratio on the GDP of the Indian economy.

H_A.1.3. There is a significant impact of the Credit deposit ratio on the GDP of the Indian economy.

GDP is an important economic indicator to find out the growth of a country and it is widely used by researchers (Chithra& Selvam, 2013; Kamboj, 2014).

Table 1,Selected Financial Indicators of Economic Growth

YEAR	GDP `	SCBS	CD Ratio in %	ATM Growth
2009-10	5303567	85170	73.3	37.80
2010-11	7248860	90919	75.6	23.86
2011-12	8736329	98612	79	28.43
2012-13	9944013	106584	78.1	19.15
2013-14	11233522	117996	77.6	40.38
2014-15	12467959	126643	78	13.33
2015-16	13771874	133499	78.2	9.76
2016-17	15362386	140462	73.03	4.65
2017-18	17095005	142642	74.2	-0.62

Source: Handbook on Indian Economy, Report on Trend and Progress of Banking in India.

Figure 1,Progress of Gross Domestic Product (GDP) in India

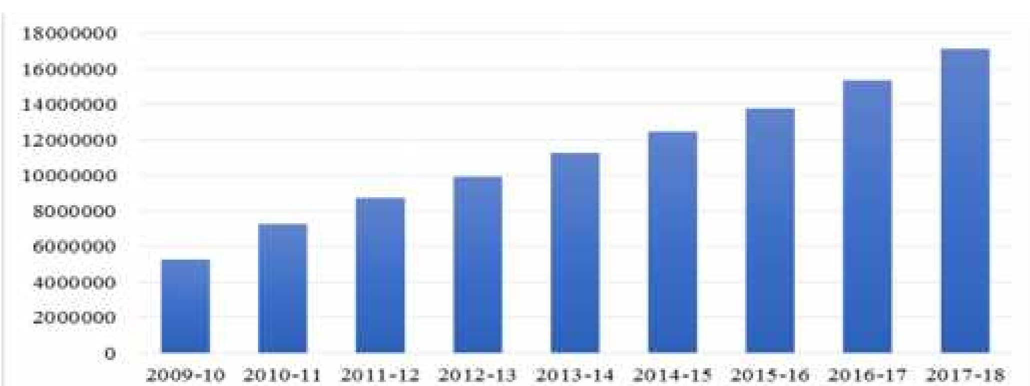


Figure 1. illustrated the Gross Domestic Product (GDP) of India during a period of nine years starting from the financial year 2009 -10 to the financial year 2017 – 18. GDP has been on continuous increase during these financial years. In 2009-10 GDP recorded ` 5303567 it was noted at a level of ` 7248860 in financial year 2010-11. In the year 2017-18, it was increased from 15362386 to 17095005 (Table 6.2.20).

Figure 2,Growth of Number of SCB Branches in India

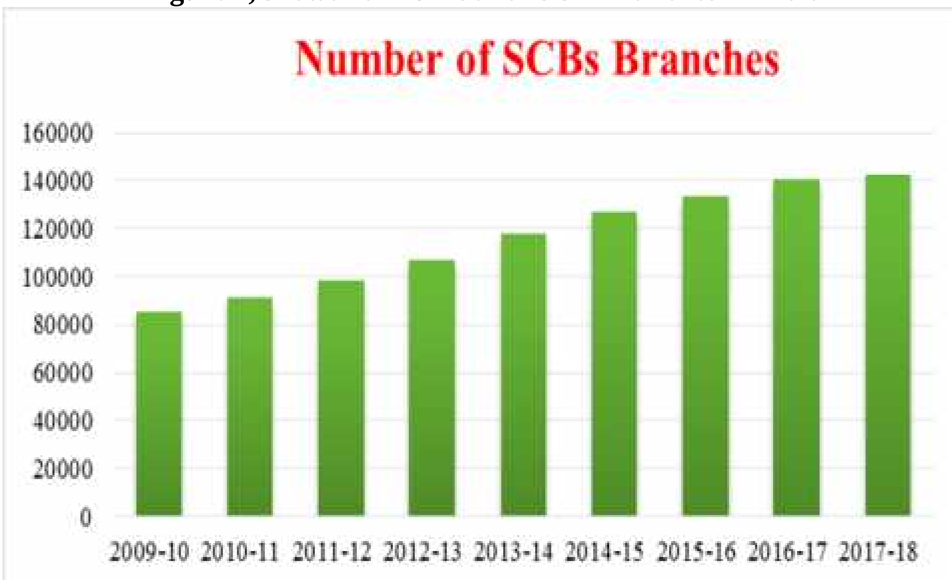
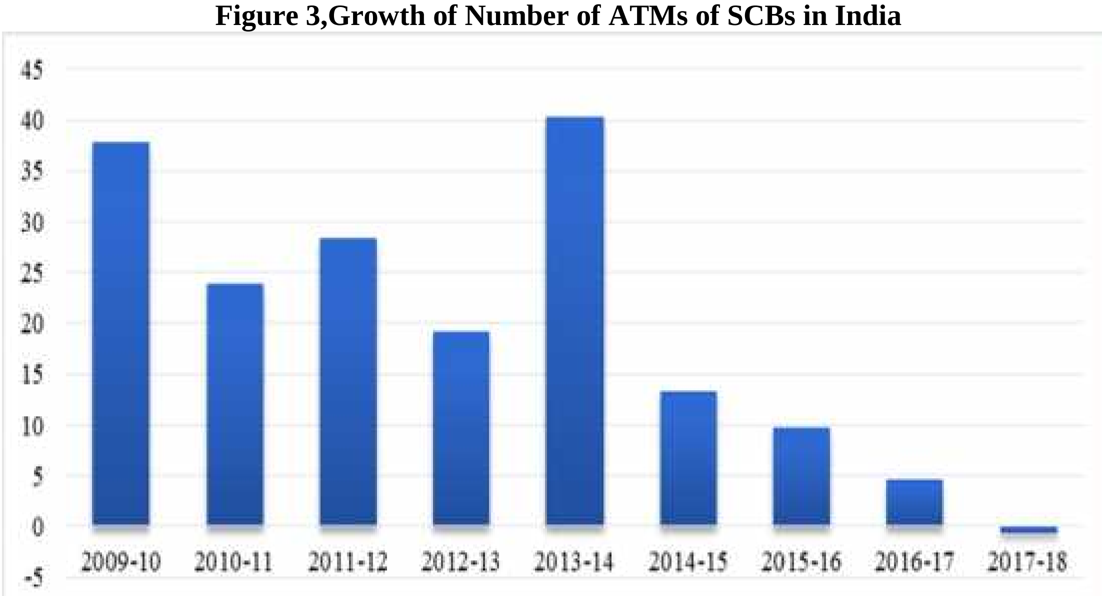


Figure 2 showed the trend of the number of functioning branches of Scheduled Commercial Banks (SCBs) in the country. It is clear from the graph that bank branches showing an increasing trend over seven years. There were 85170 bank branches in 2009-10 that has been increased up to 142642 in 2017 – 18.

Figure 3,Growth of Number of ATMs of SCBs in India



The study also covered the Automatic Teller Machine (ATMs) in India as an indicator of financial inclusion growth. The number of ATMs has continuously increased from the financial year 2009 – 10 to the financial year 2017 – 18. Figure 3 exposed the growth rate ATMs across the country and 40.38%maximum growth has been noticed during the year 2013 – 2014. Minimum growth has been observed in 2017 – 2018 and it is dropped from 4.65 to -0.62.

Figure 4,Credit Deposit Ratio of SCBs in India

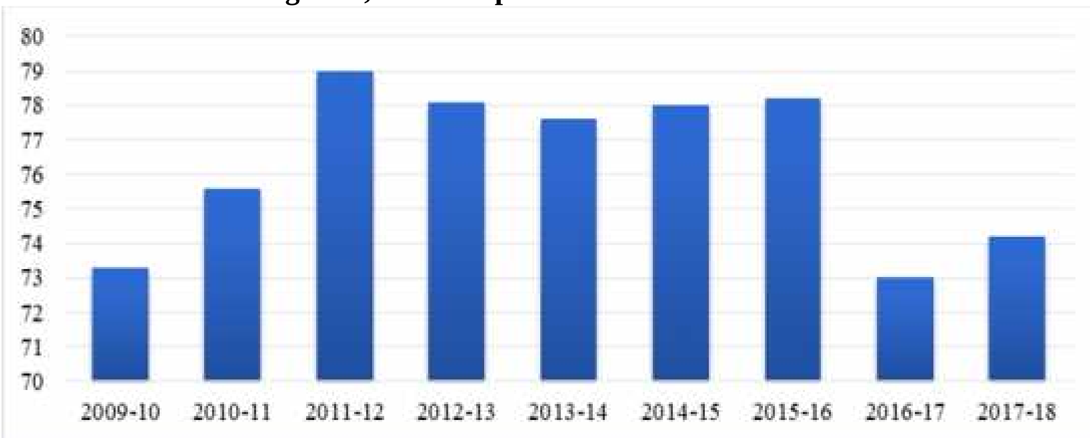


Figure 4 demonstrated the credit in 2009 – 2010 and it is dropped off nine financial years which is started from 2007 – 2008 to 2013 – 2014. The remarkable growth has been observed in the year 2011 – 2012 (79%) and the maximum declined (73.03%) recorded in 2016-17. The credit deposit ratio is slightly fell in during the year 2013 –14 and 2016 –17.

Table 2,Results of regression analysis: model summary.

R	R square	Adjusted R square	F Value	Sig.	Durbin-Watson
0.990	0.980	0.968	81.585	0.000	1.380
a. Predictors: (Constant), ATM Growth, CD Ratio, SCBS					
b. Dependent Variable: GDP					

Note: Durbin-Watson (DW) Values from 0 to less than 2 indicate Positive autocorrelation.

Table. 2 indicated the model summary of multiple regression analysis is carried out through SPSS. The result of the Model shows that the value of R is .990, which indicates a high correlation between dependent (GDP) and independent variables. The value of R square is .980 and Adjusted R square is .968. The p-value of the method is .000 which is less than .05 indicating that the regression model is statically significant and a fit model the value of the Durbin-Watson test less than one or greater than three is not acceptable, as a rule of thumb and is an indication of autocorrelation problem. The model summary displays the value of Durbin-Watson statistic 1.380 which is free from the autocorrelation problem.

Table 3,Regression coefficients.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF	H0 Rejected/ Accepted
	B	Std. Error	Beta				
(Constant)	-6992887.944	8051994.328		-0.868	0.425		
SCBS	158.351	18.395	0.886	8.609	0.000	2.644	Rejected
CD Ratio	7520.644	104982.335	0.005	0.072	0.946	1.070	Accepted
ATM Growth	-34957.984	28411.732	-0.129	-1.230	0.273	2.758	Accepted

a. Dependent Variable: GDP

Note: Variance Inflation Factor (VIF) Values are greater than 1 is predictors may be moderately correlated; between 5 and 10 indicates high correlation that may be problematic, however less than is acceptable.

Table. 3 illustrated the result of regression analysis for GDP and financial inclusion indicators, it is to be noted that the financial inclusion variable includes the Number of bank branches, ATMs growth in the country and credit deposit ratio. The results of multiple regression reveal that the beta value of the number of bank branches is 158.35 which shows a positive impact on GDP. The p-value .000 which is less than .05 at a 5% level of significance, which indicates that there is a statically significant impact on GDP. It further reveals that the beta valued of ATM growth is – 34957.98 and p-value is .270 which shows a negative insignificant impact on GDP, as the p value is more than .05. Moreover, credit deposit ratio shows 7520.64 beta value which shows positive impact on dependent variable. The p value of credit deposit ratio is .946 lesser than .05, which indicates a significant impact on GDP. As a rule of thumb if the VIF values more than 10 are not acceptable and shows a sign of multicollinearity. This regression model is free from multicollinearity as all VIF values are less than 10 for all the explanatory variables show in Table 3. The following regression equation was obtained:

$$Y = -6992887.944 + 158.35X1 - 34957.98X2 + 7520.64X3 + \varepsilon$$

Therefore, study find the vigorous relationship between economic growth and financial inclusion indicators in India. These findings are consistent with the findings of Julie (2013) who established that financial sector plays a crucial role in economic development. The present study found the positive significant impact of number of bank branches and credit deposit ratio of banks (proxies of financial inclusion) on GDP of the country. Whereas one indicator of financial inclusion, ATMs growth rate has been shown a statically insignificant impact on India GDP. Hence, the study observed that financial inclusion is strongly associated with the progress and development of the economy. In spite of this access financial services and customer awareness E-banking training and financial literacy programmes should be organized. Thus, financial inclusion is a big road which India needs to travel to make it completely successful.

Conclusion

The present study considered the role of bank financial inclusion for economic development of the nation during the period of 9 years from 2009-10 to2017-18. From the regression analysis the results indicated that innovative banking branches will spread and increase banking services to the country. This study also found that positive and significant impact of number of bank branch and Credit deposit ratio on GDP of the country therefore financial inclusion is strongly associated with the progress and development of the economy.

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