

Financial Inclusions in India

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Abstract –

Recently India has taken several steps towards financial inclusion for achieving faster inclusive growth. This study seeks to examine the achievement of the Indian states regarding the financial inclusion. Applying the methodology of Rotated Principal Component Analysis this study has computed a comprehensive measure of financial inclusion for each state. For this analysis ten indicators of financial Inclusion have been considered. This study has used the data published by the Reserve Bank of India (RBI) and the Government of India. Ranks of the states in accordance with the Composite score show that although the state of Goa is the best, most of the states in southern region have performed better in terms of financial inclusion. However, the levels of financial inclusion of the states in India have a low mean and high disparity. This study has revealed a strong positive association between the human development and the financial inclusion of the states in India

Introduction –

Investment policies have received worldwide attention including improved financial markets. Even in the advanced financial markets there are concerns about those who are excluded from the financial/formal banking system. In India, investment has been the national priority agenda of the Government of India for the past decade, especially since the efforts of program 11, to promote inclusive growth in the country. Efforts are being made by authorities and policy-making institutions such as the RBI, NABARD, the Insurance Regulatory and Development Authority (IRDA), the Pension Fund Regulatory and Development Authority (PFRDA) in accordance with appropriate investment regulations and guidelines. But public debate and unconventional evidence seem to cast doubt on the effects and implications of such inclusive policies. As for now, current researcher limits its scope when given a six-month period to look at the theme of “Investment: Why It Does Not Happen”. The theme is translated into a broad and intriguing question, "Did the investment take place in India?". To answer this question the research followed the objectives originally set for specific reviews as proposed by the Research Advisory Committee of Macro research awards of IIBF.

Objectives

Accordingly the following objectives are formulated.

- a) To conduct a critical review of the policies aimed at financial inclusion, study conflicts and overlaps in the policies and the instruments used to implement such policies.
- b) To empirically assess the state of financial inclusion by constructing financial inclusion indices for thirty Indian states using data on self help group bank linkage programme and micro finance institutions.
- c) To examine the supply side constraints in achieving the goal of financial inclusion.

Literature Review –

An empirical study of Sendhilvelan.M and Karthikeyan (2006) revealed to ensure financial inclusion of all segments of the population, in both rural and urban areas bank should give wide publicity to the facility of ‘no-frills’ accounts. Further efforts must be made to move from the concept of anytime, anywhere banking and to everyone banking.

“ Financial Inclusion and the Millennium Development Goals “ - is the text of the speech delivered by Smt. Usha Thorat, Deputy Governor of the Reserve Bank of India at the 4th Programme on .Human Development and State Finances. jointly organised by the College of Agricultural Banking, the UNDP and the Planning Commission at Pune on January 16, 2006.troughout the paper she emphasise the effectiveness of financial inclusion initiatives like no frills. Account facility, KYC procedure, GCC facility, etc.

Martin Cihik and Heiko Hesse (2007) stated in their article that co-operative banks are important, and growing, part of many financial systems. This paper empirically analyses the role of co-operative banks in financial stability. Contrary to some suggestions in the literature , they find that the co-operative banks are more stable than commercial banks.

A research article published in 2009 titled “Financial Inclusion And Its Determinants: Evidence From State Level Empirical Analysis In India ” by Nitin Kumar . The study utilizes state-wise panel data spanning over a period from 1995 to 2008 in an attempt to asses s the behaviour and determinants of financial inclusion in India. In line with the economic intuition, increase in bank branch network (captured by average population per branch) is having a beneficial impact on deposit and credit penetration.

“Overview of financial inclusion and micro credit”- is a work by D.T. Pai in January 2010.the paper deals with global concerns of financial inclusion and policy initiatives taken in developed and under developed countries and their experiences. Special coverage is given for the policy initiatives in India

A policy paper titled as “Assess To Financial Services And Financial Inclusion Agenda Around The World” published by world bank as on January 2011.the persons behind the research paper are Oya Pinar Ardic, Maximilien Heimann, Nataliya Mylenko.The paper is a product of the Financial Access Team in Consultative Group to Assist the Poor, Financial and Private SectorDevelopment. It is part of a larger effort by the World Bank to provide open access to its research and make a contribution to development policy discussions around the world.

“Financial Inclusion: Gateway for Poverty and Unemployment ” – is a paper published by Dr. Masroor Ahmad Beg (Associate Professor, Zakir Husain College, University of Delhi) in 2011. In this study, an attempt has been made to delineate empirically the formidable problems of financial inclusion which has hindered the growth process of the country by perpetuating the molasses of the more than quarter of the population in the form of abysmal poverty and unemployment.

Financial Inclusion of Fisher Households in Costal Kerala- role of micro finance” is a thesis submitted to the Cochin university of science and technology by Sangeeha K Prathap in the year 2011 March. Through the study it is tries to estimate the status of financial inclusion among the fishermen households in kerala and the socio-economic factors determining the level of financial inclusion/exclusion with a view to understand the role of micro finance.

“Opportunities and Obstacles to Financial Inclusion” is a survey report published in July 2011 by Anita Gardeva , Elisabeth Rhyne.(Center for Financial Inclusion: Publication).The surveypursues the proposition that low-income people deserve high-quality financial services and that these services can best be provided through commercial models that incorporate social purpose. The Center works on behalf of the microfinance industry as a whole, serving as a bridge to leverage private sector interest in microfinance. In collaboration with others, the Center works to bring the best minds and expertise to bear on industry problems. We are outcomes-focused, setting specific goals and measures of accountability for real-world change.

“ K.C.Chakrabarty: Financial Inclusion And Banks – Issues And Perspectives ” is an Address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the FICCI(Federation of Indian Chambers of Commerce & Industry) – UNDP (The United Nations Development Programme) Seminar on “Financial Inclusion: Partnership between Banks ,MFIs and Communities”, New Delhi, 14 October 2011.the paper states the policy measures of financial inclusion by RBI and its effectiveness.

“Anand Sinha: Financial inclusion and urban cooperative banks ”is a transcript of the comments by Mr Anand Sinha, Deputy Governor of the Reserve Bank of India, at the launch of the Financial Inclusion program of Cosmos Bank, Pune, 6 January 2012. The current policy of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. And he remains that Urban Co-operative Banks have a duty to rise up to meet these aspirations, convert the perceived weakness into exciting opportunities and facilitate inclusive growth.

“Developing A Vision For Financial Inclusion” is a report published by Elaine Kempson and Sharon Collard in 2012. This study reviews the world’s progress towards financial inclusion, with a special reference to Latin American economies and develops an evidence-based vision for achieving financial inclusion over a ten-year timeframe. The Personal Finance Research Centre, in close collaboration with Friends Provident Foundation, conducted the research.

“Financial Inclusion Through Cooperative Banks ” is a paper was presented at the COBI seminar at Bangkok on October 5-6, 2012. the paper Produced by P.V.Prabhu (trustee secretary, national institute for rural banking Bangalore). This paper states financial inclusion is a major component of “inclusive growth” strategy and cooperatives are being closer to the communities, are more suited for implementing the programme of financial inclusion.

“Factors Affecting Access to Financial Services in North East India”- is paper presented in National Seminar on “Financial Inclusion for Economic Development in North East India- Issues and Challenges” under the Programme sponsored by UGC at Dibrugarh University on March 7, 2013. The paper prepared by Chanini Lokho & Manav Saurav under the guidance of Dr.Puja Padhi, IIT Bombay.

CRISIL Inclusix is an initiative by CRISIL Developed with support from Ministry of Finance, Government of India and Reserve Bank of India published as on June 2013. It is an index to measure India’s progress on Financial Inclusion. CRISIL Inclusix is India’s first comprehensive measure of financial inclusion in the form of an index. It is a relative index that has a scale of 0 to 100, and combines three very critical parameters of basic banking services — branch penetration (BP), deposit penetration (DP), and credit penetration (CP) — together into one single metric. CRISIL evaluates financial inclusion at the national/ regional/ state/ district level vis-à-vis a defined ideal. A CRISIL Inclusix score of 100 indicates the ideal state for each of the three parameters.

Research Methodology –

Methodology is basically referred to as philosophy framework for research. It is a systematic and logical scheme based on perspective, attitudes, and values that informs the decision researchers make.

In easier words, it is a set of methods for conducting research in a specific field of study or activity.

Two methods of conducting a research are: 1) Quantitative research and 2) Qualitative research

- Quantitative research is a type of research that emphasis on the quantifying and collection as well as analysis of data. The process of collecting and interpreting numerical data is known as quantitative research.
- Qualitative research is a scientific way of gathering non- numerical data through observations. This form of research is concerned with meaning, ideas, definitions, features, metaphors, symbols, and descriptions, rather than their counts or measures.

Conclusion

In recent times the debate over investing has grown worldwide. India has also not been left out of the debate. There has been an increase in investment efforts by all stakeholders, including Government, and non-governmental organizations. Given the huge need for investment in this densely populated country, clever efforts to understand the problems from both sides of the demand and supply chain have also been made in various ways including research. This current study is a small step towards this exploratory concept to explore the critical issues related to investment in India.

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