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Role of Financial Inclusion in the Development of Economic Growth: A Review

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Abstract:

India has become the world 6th country which has the largest economy on the basis of GDP data, which is approximately 7.2% in January, 2018. Still, in India, a large population live in the rural areas and have low income which is not even sufficient to survive. To overcome with this problem, the Government of India (GOI) launched a programme of financial inclusion. It plays a very vital role in developing the economic growth of the country by reducing the poverty from the country. The main aim of financial inclusion is to provide the financial services to all common people in fair, transparent and equitable manner at reasonable cost. Still many people are there, who are unable to avail the benefits of financial inclusion due to lack of awareness, lack of financial literacy and many other factors. In this paper, a review study has been done on development of economy growth of the country and poverty reduction using financial inclusion programme.

Keywords: *Financial Inclusion, Financial Services, Economy*

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Introduction

In India, around 50% population are below the poverty line because of the high population growth, due to which the achievement of sustainable development is difficult. To overcome from this problem, Government of India (GIO) launched different programs such as Sukanya Samriddhi Yojna, Financial Inclusion Program, Rashtriya Swasthya Bima Yojana etc. But it is necessary to involve the large number of people from all sections of the society. In these programs, financial inclusion is one of the important program through which poor, disadvantaged and underprivileged group can access to the financial services.

According to the Planning Commission (2009), '*Financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products'* (Singh *et al*., 2014).

From many years, Financial Inclusion Programs are continuously attracting the global attention in the development of financial growth because of its ability to drive the growth and sustainability of an economy. It is observed that many people are excluded from the financial service due to which there is a loss of deposits or savings, loss of investible funds and related loss of capacity of the global economy to generate wealth (Adetiloye, Erin and Modebe, 2017).

Factors Affecting access to Financial Services

The process of providing the bank services like saving account, insurance product and credit facility to low income people of the society is the main objective of the financial inclusion program. But access to the financial services is limited due to multiple factors which are followed as:

- **Living Area:** Generally, most of the banks are operated only in commercial areas. While large population live in the rural areas who find difficulty to access the financial services.

- **Absence of Legal Identity and Gender Biasness:** Due to the lack of the legal identities such as original birth certificates and identity cards exclude many people (minorities, economic and political migrants, refugee workers and woman) from the accessing of financial services.

- **Limited Knowledge of Financial Facilities:** In order to access various financial services, incomplete basic education and financial literacy are the major problems to an individual. They are unaware from the significance of financial products like bank accounts, check facility, bank loan or overdraft and insurance. With the complete and proper financial knowledge, many financial products can be used by different economic agents like Business Correspondents, NGOs and MFIs and etc.

- **Low Income and Bank Charges:** People's financial status plays a crucial role in accessing the financial services. But this is impossible for poor people to access the financial services even financial inclusion program is made for the low income group. One of the reasons is the bank charges. Banks have a lot of hidden charges which demoralize poor people to access the financial services.

- **Type of Occupation:** What is the occupation of an individual is also a main factor in accessing the financial services. People may have a small scale, large scale, organized or unorganized businesses. Many banks deny or refuge the small borrowers and unorganized business people to give the loans and hence loan application is rejected (Iqbal and Sami, 2017).

These factors are the barriers for the rural as well as urban peoples to access the financial services. Due to these barriers, the focus of financial inclusion is in confined area. Poor people are restricted to access the financial services due to the low income while people (Affluent Customers) who are easily able to access the financial services, are hesitated because of the security concern (Sundaram and Sriram, 1575).

The financial services show less penetration in rural areas of India. The factors is responsible for these barriers that can be seen from both supply side and demand side aspects.

- Low income level and lack of financial literacy may be the reason for low demand of financial services.

- In case of supply side, there may be no bank branch in the locality (Singh *et al*, 2014).

So, Government of India and Reserve Bank of India (RBI) put efforts to increase the financial inclusion. Different programs of financial inclusion are developed by the Government of India and Reserve Bank of India. These program are Jan Dhan Yojna and Pradhan Mantri Suraksha Bima Yojna, are the programs for the life insurance term plan. Pradhan Mantri Jeevan Jyoti Bima Yojana is a program as an accidental insurance plan while Atal Pension Yojna is applied as benefit pension product. These are the new initiative under financial inclusion. These financial programs ensure to access the financial services and products by the low income people at affordable cost (Johia, 2017). The review of this paper is based on the importance of financial inclusion to develop the economic growth and factors prohibit the people to access the financial services, discussed by different researcher (Sundaram and Sriram, 1575).

Review of Literature

Paramasivan and Ganeshkumar (2013) stated that only literacy and awareness are not enough to increase the level of financial inclusion in India. Investment opportunity must be significantly improved in an India.

According to Mittal and Shukla (2014) financial inclusion are emerged all over in India but exclusion is seen in the rural area where poorer section are unable to access to the financial services. There is need to modify the financial services by creating an appropriate credit delivery system to achieve greater inclusion.

Deepak and Praksh (2014) carried out the result as there is one way to develop the India in which poverty and financially illiterate are brought to the financial services by the RBI and Governments through new policies and schemes.

Avais (2014) discussed the problem of the rural peoples as the financial inclusion is like a dream for them because of the large gap between demand and supply process of financial service and the common people. he gave some steps like micro credit cards, Islamic microfinance and opening of more microfinance branches at village level by which people can aware with benefits of financial services.

Mol TP (2014) gave an idea that more participation of people in the economic and social process can lead to the increase in the economic growth. RBI and Information and communication technology are taking various steps to improve and strengthen the financial inclusion for the unbanked people.

Shah and Dubhashi (2015) proposed that there is need of holistic approach for the bank to increase the awareness about the financial services, give adequate financial advice to the financial exclusive population. And the specific strategies should be developed by the bank to expend their services for the financial exclusion promotion which can be achieved by the linkage with the NGOs, local communities and microfinance institution.

Gomathy M, (2015) concluded that financial inclusion of unbanked society can be enhanced by formulating specific plans with the strategies for the reduction of transection cost by which people will actively participate in the process of financial inclusion.

According to Sundaram and Sriram, (**2016**), to bring changes in the financial system overnight is not possible for the bank and concerned authorities. Bank can go in the bottom of the pyramid section by optimum plan and speedy action but profitable proportion's possibility will be in higher volume and beneficiary's number will increase.

Thyagarajan and Nair, 2016 gave a suggestion about to increase the economy of the country by the help of bank process in financial inclusion. Different methods like registration of mobile number and linkage of account with the Aadhaar are necessary for the alertness about the financial services.

William, Adegoke and Dare, (2017) In their research they used a log linear model specification method to find the role of financial inclusion in economic growth and poverty reduction and concluded that financial inclusion is not stable effectively for the finance and market support in the development of economy for the reduction of poverty. On the other side, it may solve the many uncertainty problems, transection cost and information problems related to agriculture products and give more efficient allocation of investment that will encourage economy growth and reduce poverty.

Sachdeva *et al.* (2018) analyzed on the basis of their study and concluded that Government of India launched many scheme in which more than 60% population are involved and they are realized by the financial inclusion, their financial health has been improved. But some population do not feel comfortable with net banking and credit cards.

Sujalana and Kiran (2018) stated that financial services should be provided in rural areas for the economy growth by which rural household can fund the growth of their livelihood. By the efforts of Governments, new emerging technology are playing a vital role in the financial inclusion program. ATMs, Immediate Payment Service (IMPS) and Mobile Banking are being used by the number of peoples.

Rajasekaran (2018) discussed the solution of legal identity to open the account in bank by using Aadhaar Card as a legal document. But lack of financial literacy and low income, large population is excluded from the financial services.

Conclusion

Financial inclusion programme plays an effective role to develop the economic growth by reducing the poverty. Government of India (GOI) and RBI launched many financial programs by which people are able to access the financial services and improve their financial health. But still some factors are affecting to access the financial services such as Lack of financial literacy, legal identity etc. In recent days, GOI are trying to overcome from the barrier by using Aadhaar Card as a legal proof and opening the micro-branches of banks in rural areas. So, we can concluded that financial inclusion programme is more useful to develop the economy of country and help in reducing the poverty from the country.

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