# Impact of Financial Inclusion on Banking Growth in India

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*Financial inclusion plays a significant role for the growth of banking system. We study the impact of financial inclusion on banking growth in terms of number of new number of branches opened, new debit cards issued, new credit cards issued, new ATM's opened etc. The present study has analyzed the growth rate in different variables with new branches to evaluate the impact of financial inclusion on banking growth in India. We evaluate each variable with new branches opened to arrive at exact impact of inclusion of people on banking growth in India.*

**Keywords:** Financial Inclusion, Access, Affordable Cost, Credit Card, Debit Card

## 1. Introduction

"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" (Rangarajan, C. 2006). Financial inclusion has emerged as a strategy to bring the so called excluded people in to the mainstream**.** Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. As banking services are in the nature of public goods, it is essential that the availability of banking and payment services to the entire population without discriminate on should their prime objective of the public policy. Most recently the Rangarajan Committee(2008) defined financial inclusion as a process of ensuring access to financial services and timely and adequate credit were needed by vulnerable group at an afford able cost. Al though credit is the most important component, financial inclusion covered various financial services such as savings, insurance, payments and remittance facilities. Financial inclusion is delivering banking and financial services to all the people in the transparent and equitable manner at affordable cost to the vast sections of disadvantaged and low income group of people who have been excluded from it.

By financial inclusion we mean the provision of affordable financial services viz. access to payment and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. It is important to recognize that in the policy framework for development of the formal financial system in India, the need for financial inclusion and covering more and more of the excluded population that is underprivileged section in rural and urban area like farmers, small vendors, etc. Financial inclusion enhances the economy. In the contemporary era of running for economic power and self-reliance, it is imperative for any regime to create congenial conditions for individuals, households and private institutions which included the availability of banking services. The availability of banking facilities and strong bank branch network are the major facilitator's of developmental and expansionary activities. A strong and sturdy financial system is a pillar of economic growth, development and progress of an economy. A financial system, which is inherently strong, functionally diverse and displays efficiency and flexibility, is critical to our national objectives of creating a market-driven, productive.

Financial inclusion means delivery of banking services at an affordable cost to the vast section of disadvantaged and low income groups. United Nations defined the main goals of inclusive finance as access to a range of financial services such s saving, credit, insurance, remittance, and other banking payment services to all bankable households and enterprise at a reasonable cost.

Financial inclusion is widely recognized as one of the most important engines of economic development. Its contributions to GDP, individual and social welfare, and business creation and expansion – particularly small and medium enterprises – have been amply documented. The benefits of financial inclusion for the poor are extremely significant. Financial inclusion is not just necessary for growth, but to avoid financial collapses within families; 28% of adults in developing countries say they would deplete their savings if they were in need of money for an emergency, yet 56% of these adults do not save at a financial institution. Money that literally sits in drawers at houses ends up missing out on high interest rates offered in developing countries (this is a common policy used to curb inflation), and hence has a lower worth or net present value when used in the future.

There are a number of barriers faced by banks that would conventionally be tasked with the job of increasing financial inclusion around the world. For one, people in developing countries (and since the financial crisis, in developed ones too) do not trust banks, in digital or agents, leading to a lack of uptake in possible banking services. A large proportion of people lack financial literacy, and are not interested in the benefits they may receive from banking services (such people only believe in financial services on a need be basis). At the same time, regulatory issues around pricing, capacity and KYC (know your customer) requirements have limited the ability of banks to scale. Add to this the fact that there exists a sever lack of

connectivity in several rural areas around the world, or a lack of collaboration with governments; all these factors compound and limit the ability of banks to drive increases in inclusion.

Fintech presents a possible best-response to the lack of financial inclusion – a few years ago, big data was not as important a factor in mainstream conversations about financial inclusion; smart phone penetration in Asia, Africa was nascent, and not much research had been conducted on how smart phones can be used to substitute for conventional banking services in a masterstroke that could easily increase financial inclusion around the world. With smart phone penetration increasing exponentially in developing countries, start-ups today have a tool to allow small and medium enterprises, individuals and the youth to access working capital, small loans and a number of basic financial services that help increase inclusion.

## 2. Review of Literature

**Karmakar (1999)** stated that financial inclusion expedites credit to people of all segments of a country including vulnerable sections at an affordable cost, in a timely manner and in adequate amount. This definition put emphasis on that adequate amount of credit should be delivered to all types of demander of funds as they demand. There is no universal recognized meaning or indicator to measure financial inclusion. Nonetheless, it is commonly agreed that women's financial inclusion occurs when women have effective access to a wide range of financial products and services that satisfy their several business and household needs. **Minakshi (2009)** conducted study to assess the implementation of the financial inclusion drive and usage of banking services by households in Gulbarga district, Karnataka. It was found that though the number of households with bank accounts doubled over the duration of financial inclusion drive, 36 of the sample remained excluded from any kind of formal or semiformal saving account. **Patnaik, et al., (2012)** have attempted to understand the perception of beneficiaries in general towards the basic banking services accessibility in the district of Ganjam Odisha. The study found that the lack of regular and substantial income is one of the reasons for the financial exclusion people with low income do not qualify for a loan and it concluded that while considering the ground reality, lot of work to be done for including the rural people for the empowerment process in rural India**. Thorat (2006)**Financial inclusion means the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. **Leeladhar (2006)** financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. **Kelkar (2014)** the different financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. This aspect of financial inclusion is of vital importance in providing economic security to individuals and families. **Dangi & Kumar (2013)** Forty per cent of the households having bank accounts, but only 38 per cent of the 117,200 branches of scheduled commercial banks are working in rural areas. Accessibility of financial services at affordable and appropriate prices has been always a global issue. Hence, an inclusive financial system is required widely not only in India, but has become a policy priority in various countries. Financial access can surely improve the financial condition and living standard of the poor and the deprived section. So, 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. **Gounasegaran, Kuriakose, & Iyer (2013).** India is a country of 1.2 billion people, spread across 29 states and seven union territories. There are around 600,000 villages and 640 districts in our country. A vast majority of the population, especially in rural areas, is excluded from the easy access to finance. **Chakrabarty (2013)** "Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players"

**Objective of the Study**

1. To examine the impact of financial inclusion on banking growth in India.
2. To ascertain whether financial inclusion has impact on banking growth.

## 3. Research Methodology

This study is depends on both primary and secondary information. For the purpose of studying financial inclusion and its impact on growth in banking sector in India in the form of new branches opened, new debit cards issued, new credit cards issued, new ATM's opened based on collected data which is ranging from year 2015 to 2017. This data has been collected from RBI website and other banking journals. The collected data was tabulated and analysed. Statistical methods such as Co-efficient Correlation were used to break down and examine the data as per formulated hypothesis. The period of study was confined to 2015-2017, where total number of new branches opened, new debit cards issued, new credit cards issued, new ATM's opened new accounts opened etc.

**Research Hypothesis**

The following hypothesis has been formulated on the basis of research study.

**Hypothesis 1**

**$H_0$:** There is no relationship between new branches opened and new debit cards issued.

**$H_1$:** There is a positive relationship between new branches opened and new debit cards issued.

**Hypothesis 2**
**$H_0$:** There is no relationship between new branches opened and new credit cards issued.
**$H_1$:** There is a positive relationship between new branches opened and new credit cards issued.
**Hypothesis 3**
**$H_0$:** There is no relationship between new branches opened and new ATM's opened
**$H_1$:** There is a positive relationship between new branches opened and new ATM's opened.

**Empirical Analysis and Results**
In this study four different variables are taken into consideration to evaluate impact of financial inclusion on banking growth in India, such as new braches opened, number of new debit/credit card issued and number of new ATM opened etc.,.

**Table1** *Descriptive Statistics of the Total New Branches opened and New Debit Cards Issued*

| Year | New Branches opened | New Debit cards issued |
|---|---|---|
| 2015 | 8598 | 15,90,00,000 |
| 2016 | 6986 | 10,90,00,000 |
| 2017 | 4830 | 11,00,00,000 |
| **Co-efficient Correlation (r) = 0.8113991** | | |

*Source: RBI Publications*

**Table2** *Descriptive Statistics of the Total New Branches Opened and New Credit Cards Issued*

| Year | New Branches opened | New Credit cards issued |
|---|---|---|
| 2015 | 8598 | 20,00,000 |
| 2016 | 6986 | 40,00,000 |
| 2017 | 4830 | 50,00,000 |
| **Co-efficient Correlation (r) = -0.9629** | | |

*Source: RBI Publications*

**Table 3** *Descriptive Statistics of the Total New Branches opened and New ATM's Opened*

| Year | New Branches opened | New ATM's opened |
|---|---|---|
| 2015 | 8598 | 27,529 |
| 2016 | 6986 | 9,673 |
| 2017 | 4830 | 9,402 |
| **Co-efficient Correlation (r) = 0.828867** | | |

*Source: RBI Publications*

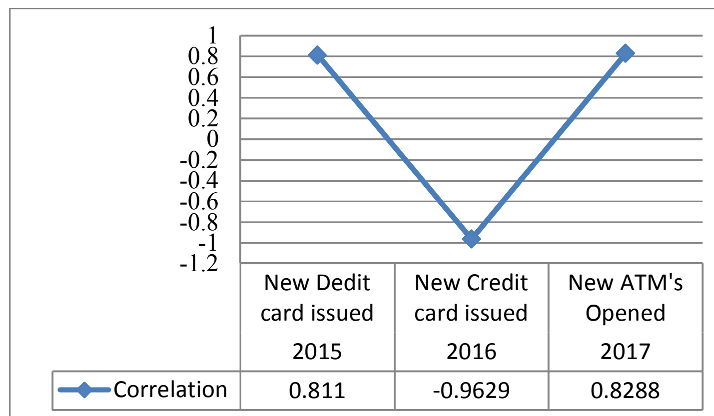


**Figure 1** *Correlation of New Branches Opened and Other Variables (New Debit Issued, New Credit Cards Issued and New ATM's Opened)*

**Results of Hypothesis with Co-Efficient Correlation**
**Analysis of Hypothesis 1**

**“$H_0$:** There is no relationship between new branches opened and new debit cards issued”.
**“$H_1$:** There is a positive relationship between new branches opened and new debit cards issued”.

**Analysis**

Table 1, reports the new branches opened and New Debit cards issued as per RBI recent publications. These two variables are the important component to know the positive or negative relationship between new branches opened and new debit cards issued, in turn will draw the final conclusion that “is financial inclusion contributes to the banking growth in India or not”. These two variables helps us to obtain result of hypothesis through co-efficient correlation that “is new branches and new debit cards have a positive relationship or not in making impact of financial inclusion on banking growth”. Having said that in this study, hypothesis result are going to obtain from Co-efficient correlation(r), for correlation, the null hypothesis is that r=0 or negative, that there is no relationship between the variables. The positive correlation indicates that the relationship is a positive one.

The result of correlation of new branches opened and new debit cards issued is positive +0.811. It means both variables have a positive relationship and thus Null hypothesis ($H_{0)}$ is rejected and Alternate hypothesis ($H_1$) is accepted. Therefore, there is a positive relationship between new branches opened and new debit cards issued.

**Analysis of Hypothesis 2**

**“$H_0$:** There is no relationship between new branches opened and new credit cards issued”.
**“$H_1$:** There is a positive relationship between new branches opened and new credit cards issued”.

**Analysis**

Table 2, reports the new branches opened and New Credit cards issued as per RBI recent publications. These two variables are the important component to know the positive or negative relationship between new branches opened and new credit cards issued, in turn will draw the final conclusion that “is financial inclusion contributes to the banking growth in India or not”. These two variables helps us to obtain result of hypothesis through co-efficient correlation that “is new branches and new credit cards have a positive relationship or not in making the impact of financial inclusion on banking growth”.

The result of correlation of new branches opened and new credit cards issued is negative -0.9629. It means both variables have a negative relationship and thus Alternate hypothesis ($H_1$) is rejected and Null hypothesis ($H_0$) is accepted. Therefore, there is no relationship between new branches opened and new credit cards issued.

**Analysis of Hypothesis 3**

**“$H_0$:** There is no relationship between new branches opened and new ATM’s opened”.
**“$H_1$:** There is a positive relationship between new branches opened and new ATM’s opened”.

**Analysis**

Table 3, reports the new branches opened and New ATM’s opened as per RBI recent publications. These two variables are the important component to know the positive or negative relationship between new branches opened and new , in turn will draw the final conclusion that “is financial inclusion contributes to the banking growth in India or not”. These two variables helps us to obtain result of hypothesis through co-efficient correlation that “is new branches and new ATM’s have a positive relationship or not in making impact of financial inclusion on banking growth”. Having said that in this study, hypothesis result are going to obtain from Co-efficient correlation(r), for correlation, the null hypothesis is that r=0 or negative, that there is no relationship between the variables. The positive correlation indicates that the relationship is a positive one.

The result of correlation of new branches opened and new ATM’s opened is positive +0.828. It means both variables have a positive relationship and thus Null hypothesis ($H_0$) is rejected and Alternate hypothesis ($H_1$) is accepted. Therefore, there is a positive relationship between new branches opened and new ATM’s card issued.

# 4. Conclusion

Broadly, this study examines the impact of financial inclusion on banking growth in India. Here growth in banking sector has been evaluated on the basis of new branches opened, new debit cards issued, new credit issued and new ATM’s opened during 20015- 2017 taken into consideration. To know the impact, hypothesis have been tested through correlation and out of three hypothesis, two hypothesis gives us positive relationship between new branches opened and banking growth, it means there is a positive impact of financial inclusion on banking growth in India.

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