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Role of Financial Inclusion towards Growth & Sustainability in Indian Economy: With Special Reference to role of Information Technology & Other Intermediaries

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Abstract:
Financial Inclusion role is inevitable; it is a key in minimizing hardships and boost affluence in a country**.** The present study **e**xplore the rationale behind the reasons of financial exclusion, analyze the role of Information Technology in e-financial inclusion & identify challenges in Financial Inclusion through technological interventions. Secondary sources used for various official sources. The study showed the extent of financial inclusion, role and importance of technology to boost financial inclusion through various government schemes and challenges faced due to technological intervention. Result outcome can be useful for the government to understand the effect and role of e-financial inclusion for reaching to the masses especially to the vulnerable group at affordable cost.

Keywords: *Financial inclusion, financial exclusion, Self-help group, Aadhaar card, e-financial inclusion*

I. INTRODUCTION

Financial inclusion means the folks & companies that is having an approach to the economical financial commodity and services that meet their demands such as deposit and withdrawing money, apply for loans, and insurance, which is delivered responsibly and sustainably. It is described as the procedure of establishing entry to suitable financial instruments and services needed especially for the underprivileged groups at an economic cost fairly and transparently by dominant institutional players **(World Bank, 2018)**

The concept of financial inclusion around the world shows a long journey and tries to associate every person to basic financial services. Starting in the late of 1990s and early 2000s many companies began to shift from merely solely microcredit services to basic access to financial facilities such as insurance and savings. NGOs (Non-governmental organizations) began to acquire licenses to accept deposited savings and offered a bundle of other financial services to lower earners individuals.

The Indian board of financial inclusion **(Rangarajan, 2008)** has suggested a nationwide agenda, which means that getting linked with the banking system would enable individuals to avail of a variety of transaction and client services such as access to economical loan, safe savings, and insurance products. It has been noticed that community from simple credit products also,

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making them more likely to turn to rapacious or even illegal lenders leaving them in perpetual debt.

1.2 The Extent of Exclusion:

India has a population of more than 1 billion out of which 70% resides in a rural region and the remaining belong to urban cities. The country has been bifurcated into 28 states and 7 union territories **(Ghosh, 2005).** There is a significant variation among the economic, social and financial development of these states. Nearly 70% of the population is engaged in agriculture out of which 80% are small-scale farmers. More than 35% of the total community in India is illiterate. 25% of the countryside citizens does not approach to basic amenities of electricity and safe drinking water. **National Sample Survey Organization** revealed that 51.4% out of 89.3 million homes do not access any source of loan. 27% of total agricultural household are indebted, from which one-third belong to in-formal sources. The proportion of farm households not accessing credit from organic systems to the total proportion is as high as 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. The poorer the group, the greater is the exclusion. 74% aggregate bank deposit is opened by public/private banks. Public sector bank employees lack aggressiveness in selling a financial product, which constitutes a reason for financial exclusion. As per the RBI data, only 20% of poor income group has access to financial services. Even after 39 years of nationalization of the bank, a large percentage of populations are still outside the sphere of banks.

1.3 International Experience

Generally, it has seen that nations having lower level of earning biases contribute to having a lower level of financial exclusion. For example, in Sweden, below 2% of adult citizens do not have any bank account whereas, in Germany, it was approximately 3% **(Lundberg & Waldnestrom, 2016).** Countries with huge disparity record higher levels of banking exclusion. For example, in Sweden under section 2 (Banking Business Act, 1987) financial institutions cannot deny opening a saving or deposit account; in 1997 the US, federal government introduced the Community Reinvestment Act, under this legislation, federal bank regulatory agencies rate banks on their efforts to serve low income groups. Refinements in this area have taken place in the final half of the 1990s, resulting partly from a wider concerned regarding social exclusion **(Casey et al., 2016)** which shows that it is also a matter of concern for wealthy countries.

II. Data Sources and Methodology

The study will draw from literature review and interpretation of recent observations at national. For the achievement of these objectives, Theoretical, historical and secondary data used for the study.

2.1 Financial Exclusion and Inclusion:

The **financial exclusion** means the inability to approach monetary services by individuals forcing them to fall into the debt trap of informal sources. The reason for financial exclusion is low income, low savings, financial illiteracy, social exclusions, unemployment or under employment, poor financial habits, financial exploitation by inorganic sources and lack of awareness. The geographical remoteness, branch timings, documentation, staff attitude, financial discrimination, lack of internet access and complex financial products also creates financial exclusion. A developing nation like India is facing core financial exclusion whereas another developed country has defined an approach to financial services.

The financial inclusion concentrates on the conversion of the areas having no banks into the banked ones. The destiny is with those

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organizations that look at the bottom of the pyramid as their customer. There is an urgency to have a detailed way for measuring the reach of the financial system to encourage financial inclusion throughout nation. Factors that measure financial inclusion in the economic system are penetration by the financial sector, availability of financial services and product at economical cost and cultivation of the financial habit.

Microcredit via **Self Help Groups (SHGs)** is becoming a crucial tool to fulfil credits & savings requirement of underprivileged, particularly females in the countryside areas. The success model of Bangladesh, initiated by Prof. Muhammed Yunus in 1976, attracted the attention of people from all over the world. Taking this as an example, most developing countries are using the model of microfinance for financing the poor. SGHs are registered informal financial networks that normally have a group of 15-20 members from low-income earners families. They create a pool of resources, and give credit to participants on a need basis. SHG-Bank linkages are essentially formal connections between a self-help group and a bank such that the self-help group as an entity can request loans/make deposits within the bank. The ability for informal networks to tap into formal networks is important in a country where many within the low-income population lack access to formal financial services. Simultaneously, RCT's on microcredit and savings groups across the world (most notably in India and Phillippines) 30 have presented clear evidence of the positive impacts — promoting savings, effectively using credit, providing safety nets to participants, and building household resilience. With this premise, it remains important to understand the impact informal financial networks such as SHGs have on the state and status of financial inclusion and the important role the SHG-Bank linkage program has played for linking unorganized sector to formal banking sector **(Ravi, 2019)**

Data from NABARD Microfinance report to gauge the overall growth in SHG-Bank linkage program during the past three years in Table 1 represents savings account, loan outlay and loan balancer of total SHGs and under National Rural livelihood Mission (NRLM) and National Urban Livelihoods Mission (NULM) during last three years. The self-help group began as a pilot in 1992, with intending to empower the underprivileged, in general, and countryside women in particular. According to the NABARD, as on 31 March 2017 the Self-help group Bank Linkage Program is one of the largest community-based microfinance action with 85.77 lakh SHGs, covering more than a 100 million rural families **(Basu & Srivastava, 2005).** Moreover, during 2016-17, 6.73 lakh savings were linked with SHGs. A major chunk (70.4%) of these savings linked SGH's are from priority states which indicates the need for associating the underprivileged families in less developed states with the improved action of SHG-BLP. SHGs under the National Rural Livelihood Mission (NRLM) has derived in a net improvement of nearly 2.9 lakh SHGs according to NABARD. The major chunk of SHGs consists of 85.4% female groups, which are the central programme for the empowerment of the underprivileged women in the country **[Ravi, 2019)**

Table 1
SHG-Bank Linkage Programme (Overall Progress)
(Number of SHGs in lakh, Amount in Crores)

Particulars		**2014-15**		**2015-16**		**2016-17**	
	Total No. of	76.97	11,059.84	79.03	13,691.39	85.77	16,114.23

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SHG Savings with Banks as on 31st March	SHGs	(3.59%)	(11.74%)	(2.68%)	(23.79%)	(8.53%)	(17.69%)
	Of Total, All Women SHGs	66.51 (6.38%)	9,264.33 (15.61%	67.63 (1.68%)	12,035.78 (29.92%)	73.22 (8.26%)	14,283.42 (18.67%)
	% of Women Groups to Total	86.41	83.77	85.58	87.91	85.36	88.64
	Of Total, NRLM/SGSY Groups	30.52 (34.92%)	4,424.03 (78.56%)	34.57 (13.27%)	6,244.97 (41.16%)	37.44 (8.30%)	7,552.70 (20.94%)
	% of NRLM/SGSY Groups to Total	39.65	40.00	43.74	45.61	43.65	46.87
	Of Total, NULM/SJSRY Groups	4.33	1,071.81	4.46 (3.00%)	1,006.22 (6.12%)	5.45 (22.42%)	1,126.86 (11.99%)
	% of NULM/SJSRY Groups to Total	5.63	9.69	5.64	7.35	6.36	6.99
Loans Disbursed to SHGs during the year	Total No. of SHGs	16.26 (19.03%)	27,582.31 (14.84%)	18.32 (12.67%)	37,286.90 (35.18%)	18.98 (3.60%)	38,781.16 (4.01%)
	Of Total, All Women SHGs	14.48 (25.69%)	24,419.75 (16.07%)	16.29 (12.50%)	34,411.42 (40.92%)	17.16 (5.34%)	36,103.13 (4.92%)
	% of Women Groups to Total	89.05	83.53	88.92	92.29	90.42	93.09
	Of Total, NRLM/SGSY Groups	6.43 (28.45%)	9,487.69 (27.26%)	8.16 (26.91%)	16,785.78 (76.92%)	8.86 (8.58%)	17,336.26 (3.28%)
	% of NRLM/SGSY Groups to Total	39.54	34.40	44.54	45.02	46.69	44.70
	Of Total, NULM/SJSRY Groups	1.05	1,871.55	1.11 (5.71%)	2,620.22 (40.00%)	1.06 (-4.5%)	2,675.77 (2.12%)
	% of NULM/SJSRY Groups to Total	6.46	6.79	6.06	7.03	5.60	6.90

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Loans Outstanding against SHGs as on 31st March	Total No. of SHGs	44.68 (6.46%)	51,545.46 (20.06%)	46.73 (4.59%)	57,119.23 (10.81%)	48.48 (3.74%)	61,581.30 (7.81%)
	Of Total, All Women SHGs	38.58 (13.27%)	45,901.95 (26.97%)	40.36 (4.61%)	51,428.91 (12.04%)	42.84 (6.14%)	56,444.24 (9.75%)
	% of Women Groups to Total	86.35	89.05	86.37	90.04	88.36	91.66
	Of Total, NRLM/SGSY Groups	18.46 (41.24%)	19,752.74 (94.08%)	21.91 (18.69%)	26,610.16 (34.72%)	24.91 (13.69%)	29,994.43 (12.72%)
	% of NRLM/SGSY Groups to Total	41.32	38.32	46.89	46.59	51.37	48.71
	Of Total, NULM/SJSRY Groups	3.18	3,462.62	3.13 (-1.57%)	3,979.75 (14.93%)	3.18 (1.60%)	4,133.29 (3.86%)
	% of NULM/SJSRY Groups to Total	7.12	6.72	7.00	6.97	6.55	6.71

Figures in parenthesis show % increase or decrease over previous year. Source: NABARD

2.2 Role of Technology in Driving Financial Inclusion

MNOs have seen extraordinary expansion in the present times. It has been observed that as on April 30, 2009 the total number of mobile phones was 403 million out of which 187 million (46 percent) do not have a bank account. Moreover, it has been noticed that the rate of growth in purchasing mobile phones in a rural area far exceeding the growth rate of opening new saving accounts.

According to Global Findex, (2017), shows that India has undoubtedly upgraded financial inclusion over the last four years and 53% of grownups have accounts in 2014 and by 2017, the number had jumped to 80% which is a remarkable extension for 300 million customer in just a few years.

From the last two decades, the E-infrastructure of Indian financial institutions is expeditiously growing & perceivable gains in day-to-day banking can be seen easily. The layman is becoming quite used cashless banking and so gradually finding its acceptance. **Further, many pilot schemes suggested at various levels such as using smart cards for operating bank accounts with biometric identification at people's doorsteps.** The rate of growth of procuring cell phones in the countryside far outpaces the growth rate of opening of the new savings account. In addition to this, **Indian post offices** have a very large rural network, the Instant Money Order service is one of the good illustrations. Additionally, the smart card enabled instrument are now available in post offices in most of the cities which enable money transmission between two inmate individuals within the nation besides saving time concerning

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clearing of outstation cheques. Another innovative approach with those who live in underprivileged areas and have accounts in Post office, in that case IMO and e-post could benefit in facilitating them **(Mudra, 2008)**. Further, under National e-governance Plan, there is a scheme for establishing 1, 00,000 plus centers for common service, majorly in countryside areas of the nation which is connected through broadband and provides all services at the doorstep of the citizen. In current time, since the growth of mobile phone, mobile banking & mobile payment (m-payment) has drawn a lot of consideration globally **(Chavan, 2009).**

The banking sector has made an important step due to rapid growth in technology. ATMs, m-banking, and other improvements have brought in important enhancements in consumer expertise and have support banks to increase their network. RBI has been passionately engaged in mobilizing automation for the advancement of the Indian banking sector over the periods **(Agarwal, 2019)**. Reserve Bank of India has played significant role in accomplishing various goals such as the application of the e-payment system such as NEFT, SWIFT and Real Time Gross Settlement.

ATMs

As per the October 2009 Policy Review, the RBI took steps by freeing branch opening in cities & countryside with populations below 50000 and nationalize commercial banks were informed to establish that one-third of any bank extension should happen in under-banked areas **(Khawari, 2015).** Within the broader hypothesis that formal banking remains an important driver for the financial inclusion, extensive proportions of the community that are eliminate from the formal financial system and tends to show higher poverty ratios and higher discrimination. Hence, the role that physical brick and mortar bank branches and ATMs play, especially in rural areas, cannot be under estimated. Various studies have also corroborated this fact.

Table 2
ATMs by population (Lakhs)

Regions	2016	2017	Growth Percentage
North India	18.6	21.9	18%
Northeast India	14.3	11.8	-17%
Central India	7.6	10.6	40%
East India	8.1	10.5	30%
West India	16.6	20.8	26%
South India	20.1	27.8	38%
Non-aligned UTs	23.1	25.8	12%

Source: RBI (ATM), Brookings India (Population Estimates)

As Table 2 indicates, there has been an enormous growth of ATMs in India in the last few years. Between 2014 and 2017, ATMs grew by 28% from 13.27 ATMs per 100,000 people to 17.19 ATMs per 100,000 people. Furthermore, overall ATM growth in countryside areas is comparatively more than metropolitan areas.

The Mobile Phone Penetration

Mobile phone service providers are proposing inventive ways of bringing the unbanked community into the formal economy by using cell phones. In India, only 200 million populace have access to a financial institution whereas, 811 million have access to the mobile phone. According to Wim Raymaekers, Head of Banking

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Market, SWIFT says that mobile phone is the key when it comes to reaching the 'unbanked' and approaching financial inclusion for the broader population **(Mudra, 2008).**

Impact of Digital India by 2019

The Government of India made an investment of $18.4 billion on development of IT skills, internet connectivity and access to government services. Moreover, by 2019, there is also a provision of broadband internet access to 2,50,000 at a cost of about $5.9 billion **(Ninam, 2016).** There is also the availability of digital lockers to each resident, allowing them to save all their original identification documents and records. It has been observed that government is targeted development of 100 smart cities in India and focuses on moving towards automation in the delivery of government services

Aadhaar Card: There is a new program launched by Indian government known as Aadhaar programme, which is technology-levered and likely to be the huge agent in the financial inclusion, and expected to assist financially excluded segments.

Direct Benefits Transfer: Under this scheme government directly transfer social security schemes in form of old age pension or handicapped pension by using Aadhaar and authentication thereof, which supported by UIDAI **(Firpo, 2005).**

2.3 Challenges in Financial Inclusion through technological interventions:

It has been observed that still there is a dearth of awareness of financial instrument products and several accounts are no-frills in nature. Moreover, dwellers are not educated enough to understand the concept **(Firpo, 2005).** To overcome this issue there is a high requirement of skilled and trained work force. Another major challenge encountered by the people in getting associated with the formal financial system i.e. documents required for opening bank accounts. To overcome this issue easy, small and simple forms have created with also simplified KYC procedure to boost saving accounts. Moreover, there is also a need to relax the branch opening rules for banks for opening branches in center with less than 1 lakh population.

III. CONCLUSION

Thus it can be concluded that technology and financial inclusion are the well-known coinage in banking industry of nation while technological up-gradation is catching up at a rapid rate. The biggest source of financial inclusion expansion in India, beyond bank accounts, are technology-enabled solutions. India has witnessed a significant increase in telecommunication connectivity throughout the country. Coupled with the rollout of Aadhaar, this has created a unique opportunity to make massive gains in financial inclusion, which are largely concentrated in urban areas of the country but have spread beyond Tier 1 and Tier 2 cities to smaller cities, townships and semi-urban areas due to improved infrastructure and connectivity across all states of the country.

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