

# Financial Inclusion in India: An Analysis of its Pattern

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## Abstract

Financial inclusion, the process of ensuring access to financial services along with timely and adequate credit where needed by vulnerable groups, helps the weaker sections and low-income groups in different ways. With an active intervention of the government, a large number of the unbanked segments of the society could be included in various financial services in the last few years. As a result, the number of bank accounts has been increasing. Members from the marginalised groups, women, etc. are some of the direct beneficiaries of financial inclusion. By utilizing micro data of World Bank, 'Global Financial Inclusion (Global Findex) Database 2017, the author observes that socio-economic factors, like educational level, age group, and employment have an important role in determining one's access to banking services. But some problems arise when the account holders do not utilize the banking facilities properly, especially when a majority stays idle. Lack of money is still considered one of the major factors for a lack of interest in holding a bank account. The ownership of bank account by other members in the same family also stops many from opening a bank account. The government has to take active measures to solve these issues. Moreover, the remaining unbanked sections of the society have to be included in the financial services, by solving the various reasons cited.

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## 1. Introduction

The citizens of the nation should be included in the banking and financial system in the modern era of economic growth. This process will accelerate the social as well as the economic development of the country. For this purpose, the effective implementation of financial inclusion is needed. Financial inclusion is different from social banking, and it can do more for the poor than social banking did in the past (Kamath, 2007).

As far as the evolution of the financial inclusion in India, there are mainly two important reports on which it is developed, viz., Committee on Financial Inclusion under the chairmanship of C Rangarajan and *Hundred Small Steps* under the chairmanship of Raghuram G Rajan. According to Rangarajan, 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, 2008),while Raghuram G Rajan says, “the most important financial services for the poor are vulnerability reducing instruments. These include savings, remittances, insurances, and pension needs”(Dasgupta, 2009). Both the reports largely converge in their diagnosis of financial inclusion. However, whereas the Rangarajan Committee drags the government into micro-management, the Raghuram G Rajan Committee confines it to the policy level and macro market only. But both reports highlight the importance of infrastructure improvement, human capital formation, and legislation process (Dasgupta, 2009).

Inclusive growth and financial inclusion are no longer just policy choices; instead, they are now policy imperatives, which would determine the long-term financial sustainability and stability of the social and economic order, going forward. We need to ensure that our fellow country people get easy access to the financial system and are able to leverage this access to improve their social and economic well-being (Chakrabarty, 2013).

The first step for having a successful financial inclusion is to store money and send and receive payments. Access to the account is the next major step. The store of money helps in planning for long term goals as well as for unexpected emergencies. The accessibility of various financial services to multiple strata of the society and its proper utilization decides the success of any financial system. One of the critical factors that enable people to exit from poverty through enhancement of productivity is having access to finance (Banerjee & Newman, 1993). It is the inability of formal financial institutions to meet the specific needs of the poor that has enabled informal service providers to fill the vacuum (Ananth & Oncu, 2013).

Generally, in our society, the marginalized groups of the population are financially excluded. In most cases, their livelihoods are not monetized, and they are deprived of financial inclusion. Besides, there is a lack of awareness regarding the availability of E-banking services; on the other hand, banking officials are not also well aware of the needs and capacity of the people in these sections. As a result banks cannot bring them under the umbrella of financial inclusion (Bagli & Dutta, 2012). To take an instance, in the case of women, it is opined that universal financial access will help women save their income, access credit and benefit from a wide range of financial services like insurance and microfinance. As a result they can gain greater control over their money, make investment and spending decisions and improve their standard of living. Information and Communication Technology (ICT) helps women to access the capital needed to establish and grow their businesses. It is estimated that, by 2030, the share of women-owned business entities is expected to increase significantly from 30 percent of total registered businesses worldwide, and the share of women entrepreneurs with access to capital will rise from the estimated current level of around 10 percent (ECUE, 2016).

Income, literacy, and population are generally understood as the major factors to have a significant association with the level of financial inclusion. Among the banking variables, deposit and credit penetration recorded significant association with financial inclusion. Finally, the credit-deposit ratio and investment ratio did not have a significant association with financial inclusion (Chithra

& Selvam, 2013). There are certain other factors like microfinance providers, who try to reach low-income women in areas surrounding their branches. The women who were able to engage in an income-generating activity and comply with the requirements of the group lending model helped in financial inclusion (Shankar, 2013). In the rural area, perception, whether it is towards usefulness, ease of use, or risk aversion, plays an important role in the degree of diffusion of mobile banking (Behl & Pal, 2016). The credit availability and types of services provided are key factors of financial inclusion. The mere opening of bank branches will not be sufficient if these branches do not serve the people (Lenka & Sharma, 2017).

While structural solutions were expensive and nevertheless must be pursued, banks had to think of designing a process response to the problem, drawing on the experiences and practices of the traditional lenders to the unorganised sector (Srinivasan, 2007). Many people, according to the author, in the grass root level are still not familiar and many of them have not even heard about the financial inclusion measures (Mahadeva, 2009). By the end of 2000s, the financial inclusion has been mostly unsuccessful among population categories such as the scheduled castes, scheduled tribes, other backward classes, and those who are less educated (Majumdar & Gupta, 2013). The conspicuous absence of rural credit cooperative societies and self- help group organizations has further worsened the situation in rural areas (Mahadeva, 2009).

Financial exclusion in terms of access to credit from formal institutions is high for small and marginal farmers and some social groups. Supply and demand problems had to be solved with appropriate policies (Dev, 2006). In the initial period, especially at the end of the 1990s, among poor households, specifically among slum-dwellers, only one-third of the respondents had a saving bank account. The vast majority of them had either savings or the desire to save. For them, the tool of financial literacy had to be used to introduce them to the virtues of savings and benefits of being linked to the formal financial system (Bhatia & Chatterjee, 2010). The rate of financial inclusion was also lower in urban marginalised groups, such as street vendors, etc. The financial inclusion programme though targeted at the urban poor, has paid

little or no attention to the street vendors. The moneylenders are businessmen who come with the sole aim of earning profits. The interest they charge is very high, and the way they collect their dues is also very harsh (Bhowmik & Saha, 2013). The usage of mobile banking technology is primarily driven by the perception of users and potential users. Perception, whether it is towards usefulness, ease of use, or risk aversion, plays a vital role in the degree of diffusion of mobile banking in a rural setup. The spread of mobile banking by banks and financial institutions need to study the degree of perception towards credibility risk before upgrading the technology (Behl & Pal, 2016).

It was found that there is a statistically significant impact of financial inclusion on women entrepreneurship. It provides a platform for women to establish new business ventures. It was realized that females do not have proper awareness of various financial inclusion schemes. Poor internet penetration, lack of education, lack of usage of bank facilities were some of the reasons that were observed for poor awareness related to various financial inclusion schemes (Goel & Madan, 2019). In India, the share of adults with an account has more than doubled since 2011, to 80 percent. An important factor driving this increase was a government policy launched in 2014 to boost account ownership among unbanked adults through biometric identification cards. This policy benefited traditionally excluded groups and helped ensure inclusive growth in account ownership. Between 2014 and 2017 account ownership in India rose by more than 30 percentage points among women as well as adults in the poorest households, which is 40 percent of the total households. Among men and adults in the wealthiest households, which is 60 percent of the households it increased by about 20 percentage points. Men were 20 percentage points more likely than women to have an account. Today, India's gender gap has shrunk to 6 percentage points thanks to a strong government push to increase account ownership through biometric identification cards (Demirgüç-Kunt *et. al*, 2018).

The extent to which the role of the moneylender has declined over the period is a broad indicator of the progress in financial inclusion, especially in the rural sector. It is an irony that the southern states which have a good penetration of banks and microfinance

institutions account for a large proportion of borrowing from money lenders. It was assumed that the growth of microfinance institutions would reduce the reliance on moneylenders (Chandrasekhar, 2014). The financial reforms undertaken in India have resulted in the positive effect on economic growth both in the short as well as in the long run (Lenka & Sharma, 2017). India can attain long-run economic growth by improving the coverage of financial inclusion. Access to financial services, both on accounts of demand side and supply side, causes spur in economic growth (Sethi & Sethy, 2018). In India, a strong government pushes to increase account ownership through biometric identification cards helped narrow both the gender gap and the gap between richer and poorer adults. A well-developed financial system accessible to all reduces information and transaction costs, influences savings rates, investment decisions, technological innovations, and long run growth rates (Beck et al., 2009). For achieving financial inclusion, people need to have some basic financial literacy, financial skills, product knowledge, and understanding (Aggarwal, 2014). Moreover, to achieve financial inclusion, the government should emphasise on the behavioural factors rather than considering an improvement in literacy rate as a major determinant (Gupta & Singh, 2013).

Some studies opined that the majority of the people feel that they do not have sufficient income to open an account in the bank. It is also revealed that moneylenders are still a dominant source of rural finance despite the wide presence of banks in rural areas. In a nutshell, it is observed that although various measures have been undertaken for financial inclusion, the success is not found to be considerable (Chattopadhyay, 2013). But, there are certain sections of the society who suffer from poverty and are away from financial services. There is a dearth of studies that deal with the extent of financial inclusion, especially after the government's new policy of 'Digital India' in 2014. Against this background, this article tries to explore the financial practices of the respondents in India and the financial inclusion and exclusion among the respondents. This study extensively uses the micro data of Global Financial Inclusion (Global Findex) Database 2017 of the World Bank. The indicators in the 2017 Global Findex database are drawn from survey data covering almost 150,000 people in 144 economies-representing

more than 97 percent of the world's population, and this paper utilizes the information from 2991 respondents from India. Here, in this study, the term financial inclusion is limited to the ownership of the bank account and its utilization. The present study will be useful to find the banking habits of respondents in the context of the utilization of the various financial products and services.

## 2. Determinants of Financial Inclusion in India

Some of the important factors that determine financial inclusion are age, gender, financial strength, educational background, and employment status and/or participation of the respondent. In India, almost 80 percent of the respondents have a bank account. The socio-economic analysis shows that 82.9 percent of males have a bank account than females (76.6 percent). Education level plays a positive role in deciding the status of having a bank account that in higher educational level group category, 97.1 percent had a bank account. Household income quintile group analysis shows that the lowest percent has been reported among the poorest 20 percentage groups. In comparison, the richest 20 percentage groups had a higher rate of bank accounts (Table 1). As far as age group is concerned, those in three middle aged categories (age 45-64) have a higher rate of bank account (85.4 percent). Similarly, a higher proportion of bank account holders can be seen among the workforce (83.8 percent).

Table 1: Distribution of respondents by socio-economic groups

Background variables	Attributes	Has a bank account (Percentage)
Gender	Male	82.9
	Female	76.6
Education level	Completed primary or less	75.3
	Secondary	83.6
	Completed tertiary or more	97.1
Household income quintile	Poorest 20 Percentage	73.7
	Second 20 Percentage	80.5
	Middle 20 Percentage	81.5
	Fourth 20 Percentage	79.7
	Richest 20 Percentage	84.0

	Below 25	71.4
Age	25 - 44	82.7
group	45 - 64	85.4
	65 and above	77.9
Employment	Out of workforce	75.1
	In the workforce	83.8
Total		79.8

Source: Estimated from the micro data of Global Financial Inclusion (Global Findex) Database 2017 of the World Bank.

(<https://microdata.worldbank.org/index.php/catalog/3324/get-microdata>)

## Utilisation of bank accounts

Though the rate of bank account is high, the pattern of utilization shows a somewhat dismal picture. In India, almost half of the account owners have an account that remained inactive in the past year (Demirgüç-Kunt *et al.*, 2018).

Among the respondents, only 32.8 percent have a bank account. Among the debit card holders, a vast majority (89.2 percent) reported that they had their own name on the debit card. 35.5 percent of the debit card holders used their own debit cards directly to make a purchase. As far as utilization of mobile phones or the internet is concerned for the payment, 15.1 percent make payment to buy something or to send money from their account at a bank or another type of financial institution. But, 20.1 percent of the debit card owners have checked their account balance using a mobile phone or the Internet (Table 2).

Table 2: Utilisation of credit and debit cards by respondents

Utilisation details	Percentage
2.Respondents having a debit card	32.8
3.Debit card respondents with their own name in it	89.2
4.Debit card respondents who used their own debit card directly to make a purchase in the past 12 months	35.5
5.Debit card respondents who used mobile phone or internet to access Financial Institution account	15.1
6.Debit card respondents who used mobile phone or internet to check account balance	20.1
7.Respondents having a credit card	3.0
8. Credit card respondents who used card in past 12 months	70.0



*Source: Estimated from the micro data of Global Financial Inclusion (Global Findex) Database 2017 of the World Bank.*

Contrary to this situation, credit card usage shows a dismal picture. Among the respondents, only 3 percent own credit cards. Out of these credit card holders, 70 percent use credit cards for various purposes (Table 2). In the past 12 months, among the account holders, only 16.6 percent of the respondents have used their own cards directly to make purchases. In the case of the utilization of mobile phones or the internet to make a payment, to buy something, or to send money from their account in a bank or another type of financial institution, a very meager rate of respondents used this facility (2.5 percent).

### **3. Multivariate analysis: Logistic Regression**

The differences in holding bank account of the respondents across different socio-economic groups in India, according to micro data of Global Financial Inclusion (Global Findex) Database 2017 of the World Bank, are analysed in this section. In order to find out the effect of selected background characteristics on owning a bank account, the logistic regression analysis has been carried out. In this analysis, ownership of bank account has been taken as a dependent variable, while other variables such as gender, education level, household income, age group, and employment as independent variables. The odds ratio ( $\exp(b)$ ) for each category of an independent variable obtained from the analysis indicated the odds of reporting owning a bank account compared to the reference category during the reference period when keeping the effect of all other variables constant. The category with odds ratio 1 is the reference category.

The result shows that there is no indication of multicollinearity<sup>†</sup> as none of the independent variables in this analysis have a standard error greater than 2.0. The presence of a relationship between the dependent variable and combinations of independent variables is

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<sup>†</sup> Multicollinearity in the multinomial logistic regression model is detected by examining the standard errors for the b coefficients. A standard error larger than 2.0 indicates numerical problems, such as multicollinearity among the independent variables.

based on the statistical significance of the final model of chi-square in the table. In this analysis, the probability of the model chi-square (184.629) was <0.001, less than or equal to the level of significance of 0.05 (Table 3). The null hypothesis that there was no difference between the models without the independent variable has been rejected. Thus the existence of a relationship between the independent variables and the dependent variable has been supported.

Table 3: Determinants of holding a bank account: Logistic Regression Results

Independent variables	Attributes	B	S.E.	Sig.	Odds Ratio (Exp(B))
Gender	Male	-			1.000
	Female	0.131	0.103	0.205	0.878
Education level	Completed primary or less			0.000	1.000
	Secondary	0.789	0.124	0.000	2.202
	Completed tertiary or more	2.388	0.398	0.000	10.896
	Poorest 20			0.259	1.000
Household income quintile	Percentage Second 20	0.110	0.144	0.446	1.116
	Percentage Middle 20	0.143	0.147	0.330	1.154
	Percentage Fourth 20	-	0.146	0.535	0.913
	Percentage Richest 20	0.091	0.156	0.165	1.242
	Percentage Below 25			0.000	1.000
Age group	25 - 44	0.859	0.120	0.000	2.360
	45 - 64	1.158	0.145	0.000	3.183
	65 and above	0.992	0.200	0.000	2.696
Employment	Out of workforce				1.000
	In workforce	0.396	0.103	0.000	1.486
Constant		0.135	0.161	0.403	1.144

Omnibus Tests of Model Coefficients	184.629392 , p(0.000)
Chi-square	
-2Log Likelihood	2862.862614
Cox & Snell R Square	0.059862
Nagelkerke R Square	0.093680

*Source: Estimated from the micro data of Global Financial Inclusion (Global Findex) Database 2017 of the World Bank.*

Logistic regression analysis shows that education plays a significant role in having a bank account. The respondents who had completed tertiary or more level of education had ten times more chance to have the bank account when compared to the respondents who have completed primary or less. In comparison, the respondents who had completed the secondary level had two times more chance to have a bank account than the lowest educational group. The other important factor, age, shows that middle-aged persons (age 45-64) have a higher chance to have a bank account than the lowest age group by almost three times, while 45-64 and 25-44 age groups have 2.7 times and 2.4 times respectively more chance than the lowest age group. As far as the employment category is concerned, the respondents in the workforce have 48 percent more probability of having a bank account than the respondents who are not part of the workforce. In the case of gender group, males had comparatively a higher chance to have a bank account when compared to females, though it is not statistically significant. A statistically significant result could not be found in the case of household income quintile in holding a bank account. The above logistic regression analysis shows that the background variables like educational level, age group, and employment play major roles in deciding the ownership of a bank account.

#### **4. Reasons for not having a bank account**

According to the survey, in India, 20.2 percent of the respondents do not have a bank account. Among the respondents without a bank account, lack of money was found to be the primary reason for not having one (56.5 percent) (Figure 1).

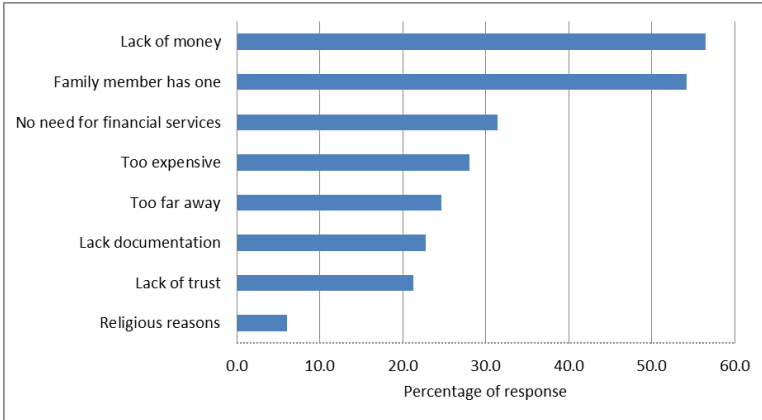


Fig 1: Reasons for not having a bank account.

Source: Estimated from the micro data of Global Financial Inclusion (Global Findex) Database 2017 of the World Bank.

The other reason for not having a bank account is that other family members have a bank account, and they did not want more (54.2 percent). No need for financial services (31.4 percent), too expensive (28.1 percent), too far away (24.6 percent), lack of documentation (22.8 percent), and lack of trust (21.3 percent) were the other reasons.

### 5. Other findings from the survey

From the total 3000 respondents, the following findings were gathered. A very small number (2.7 percent) used mobile phones to make payments, to buy things, or to send or receive money in the past 12 months. Only 1.2 percent of the respondents used the internet, whether on a mobile phone, a computer, or some other device, to make bill payments. A minority (9.7 percent) personally, saved or set aside some money to start, operate, or grow a business or farm in the past 12 months. 11.2 percent of the respondents, personally, saved or set aside any money for old age in the last 12 months.

Among the 79.8 percent of the account holders, the following finding could be seen. A minimal number (8.2 percent) used mobile phones or the internet to check account balance. Only a minority of the respondents (3.7 percent) had a credit card. Among the credit card holders, almost 7 in ten respondents (69 percent) used cards in the past 12 months. Almost two-fifths of the respondents (41.6

percent) had some deposit into the account in the past 12 months. Almost two-fifths of respondents (42.4 percent) had some withdrawal from the account in the past 12 months.

## 6. Conclusion

The government policy to boost the number of account ownership among unbanked has succeeded over the years. The present study shows that a vast majority has bank accounts. Certain socio-economic factors, like educational level, age group, and employment, determine the increase of the number of bank account holders. But the problems arise when the account holders do not use the bank account properly. Lack of money was one of the significant factors for the disinterest of owning a bank account. The ownership of bank account by other members in the same family also withdrew them in creating a bank account. The government has to bring various measures to bring the unbanked respondents to banking activities, as well as an active implementation plan is required for the proper utilization of the banking facilities.

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