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Financial Inclusion- A Theoretical Framework

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Abstract: Financial inclusion plays a vital role in developing the nation. There are different factors providing their assistance in boosting the nation, but it is essential to provide financial aid to backward and rural citizens of the country. It has been analyzed from the previous studies that from 2005 onwards government and Reserve Bank of India have taken many steps to promote financial inclusion. However, only 70% of people have taken advantage of financial products and services. This research paper is based on the study of previous research work so that it will be helpful for the legislative bodies to frame plans and policies relating to the digitalization of financial inclusion according to the need of society. For example, technology is beneficial in providing financial assistance in the rural sectors of the economy. In addition, a model is framed, which is helpful to know the nature of people toward financial inclusion through different perspectives such as economic behavior, financial literacy, and social inclusion. Hence, the government needs to take serious steps to implement the technology more productively to get positive results for financial inclusion all over the world. Because it is not possible to grow the economy without including the poor and backward zones of the nation.

Keywords: Financial Inclusion, Reserve Bank of India, Gross Domestic Product, Economy.

1. INTRODUCTION

"It becomes challenging in today's scenario to provide financial products and services equally to all the nation's citizens because of inequality, lack of awareness, illiteracy, huge population, lack of savings instruments, and so on. Hence, national financial inclusion plays a vital role in every country. "In today's dynamic world, it is essential to growing the economy to compete with the world. Financial inclusion has become a crucial part of developing nations like India. The time demands promote equal growth opportunities in the cities as well as in the villages. Undoubtedly, financial illiteracy is the biggest hurdle in financial inclusion. Despite this, the banking sector and government play a vital role. Banks set up many services for people living in different areas, such as Kissan credit cards, no-frill accounts, General purpose credit cards,

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overdraft facilities in no-frill savings bank accounts, self-help group credit linkage, rural self-employment training institutes, financial literacy, and credit counseling Centre because they have a mutual relationship between banks and financial inclusion and public. The banking sector provides financial products and services to remove the obstacles to financial inclusion in different ways, such as promoting liberalization and providing finance to start a business. Financial inclusion helps raise the public standard of living, decreases disparity, reduces poverty, promotes agricultural growth, and offers new work opportunities, ultimately increasing the country's economic growth and development. Hence, financial inclusion has emerged as an essential topic on the global surface for sustainable long-term economic growth of the nation.

Concept of Banking and Financial Inclusion

The banking sector is the most significant part of every economy. It is highly impossible to run the economy without banks. The typical role played by every bank is to accept savings and provide finance to needy people. There are two types of banks such as public sector banks and private sector banks. Both are working for the growth of the nation. With the expansion of the needs of the public, many new banking enterprises are set up in different areas of the country with other names. Even they are providing various services to their customers. The top 10 banks in India with details are discussed below: -

i) Housing Development Finance Corporation Ltd. (HDFC Bank Ltd.): - The housing development finance corporation started working in 1977. The essential preprimary Development Finance Corporation is to provide housing loans with mutual trust and understanding.

"HOME LOANS, WITH YOU RIGHT THROUGH"

ii) State Bank of India (SBI): - The largest bank in India started working in 1955. Its headquarters is situated in Mumbai, Maharashtra. It is the 43rd largest bank at the global level, ranked 221st in the global list of the world's most giant corporations of 2020, and it became the single bank on the list.

"THE NATION BANKS ON US; PURE BANKING, NOTHING ELSE"

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iii) ICICI Bank Ltd.: - ICICI bank limited is a privately owned banking enterprise with its headquarters in Vadodara, Gujarat, and corporate office in Mumbai, Maharashtra. This banking enterprise provides many financial services through different channels. It has 5,275 branches and 15,589 ATMs across India.

"NIBHYAE VAADE"

iv) Kotak Mahindra Bank Ltd.: - This is a private enterprise with headquarters in Maharashtra. From February 2021, it ranked as the 3rd largest Indian private sector bank by market capitalization, with the existence of 1600 branches & 2519 ATMs all over India.

v) AXIS Bank Ltd.: - This is India's 3rd largest private sector bank. It provides financial services to its customers, such as helping the agriculture sector by providing finance to set businesses. Moreover, they are providing finance to all MSMEs.

"DIL SE OPEN"

vi) IndusInd Bank Ltd.: - IndusInd Bank Ltd. is a new private banking enterprise. Manmohan Singh started it in 1994. It provides electronic products and services to its clients along with other benefits. Its name is derived from Indus Valley Civilization.

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vii) YES Bank Ltd.: - It is an Indian private banking enterprise founded by Rana Kapoor & Ashok Kapor in 2004. The headquarter of this banking enterprise is situated in Mumbai, India. It provides a wide range of banking and financial products for corporate and retail business houses.

viii) Punjab National Bank is a sizeable government-owned banking enterprise. Its' headquarter is in Mumbai, Maharashtra. The bank has about 180 million customers, 10,910 branches, and 13000+ ATMs, which are post-merger with United Bank of India and Oriental bank of Commerce from 1st April 2020.

ix) Bank of Baroda.: - It is a government-owned enterprise owned by the ministry of finance. It has 132 billion customers, which is why it is the 3rd largest government-owned banking enterprise.

x) Bank of India.: - It is a government-owned enterprise with headquarters in India, Mumbai. It was founded in 1906. The bank's control has been in the hands of f government since 1969.

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"RELATIONSHIP BEYOND BANKING"

Concept of Rural and Urban Development

Rural and urban development is essential for the country's economic growth and development. The term rural and urban development stands for creating job opportunities for r the society's different sections in the rural areas. However, it also includes providing basic infrastructure facilities such as clean drinking water, food, health services, electricity, education, and housing. For this, there is a need to set up infrastructure facilities such as public and private banks, schools, hospitals, etc., so that people in these areas become aware of new opportunities and raise their standard of living, which ultimately assists in the economic growth of the nation.

a. Theoretical background

The Indian banking system possesses divergent stages over time. It is divided into four steps:

b. Early stage: In this stage, the progress of banking was plodding, and most banks could not achieve their targets. There were around 1100 banks have failed in the early stage.

c. Pre-Nationalization stage: This stage is known as the restructuring phase. In this stage, the Reserve Bank of India was set up and known as the central bank of India to maintain its financial position in India.

d. post-Nationalization stage: In this stage, the banking sector proliferated. The commoner starts believing in banking services. Hence, fruitful results and good outcomes of Nationalisation ion shown in this stage.

e. Modern stage is known as "the reforms stage." In the present scenario, Indian Banking provides a different product range, providing its customers with tech-savvy inadequate electronic-based banking services.

Importance of Financial Inclusion: -

Financial inclusion is described as an attempt to provide financial products and services at an affordable price to the poor and vulnerable groups of the nation. Financial inclusion plays a vital role in all different countries. But, the position of financial inclusion is weak in India compared to other developed nations. The biggest reason behind this is that approximately 72% of the people spend their lives in villages. Statistics show that there are around 5.94 lakh villages in the country.[1]

The people who live in villages cannot benefit from all the divergent types of financial services. There are many reasons for this, such as less illiteracy regarding finances, improper economic behavior, and lack of social inclusion. Hence, the study of financial inclusion is directly linked with financial literacy, financial behavior, and social inclusion.

Financial inclusion is described as providing financial services to the weaker and poor sections of society. Moreover, it aims to identify the unbanked and under-banked areas to set up economic and banking enterprises.

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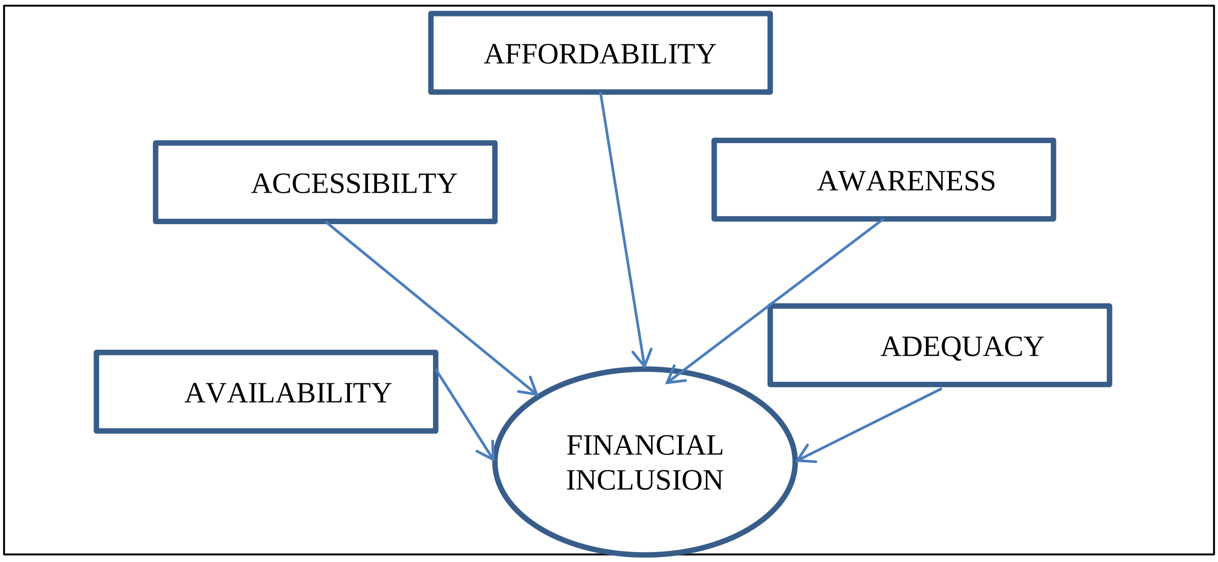
In the latest framework on financial inclusion, five A's are linked with it. First, "Availability" means providing financial services to all the country's persons irrespective of wages and credit limits. The second is "Affordability," which provides these services at a reasonable price. The third is "Accessibility," which means to provide financial services and products in all the secs of the society, such as providing financial services in the remotest area of the country. The fourth 'A' stands for creating "Awareness" about financial services and products. The last 'A' stands for "Adequacy," which means financial inclusion means providing loans to the weaker sections of society according to their need and demands of them.



Source: A study on the status of financial inclusion in India by Kaur et al. (2017).

Definitions of Financial inclusion: -

The Reserve Bank of India firstly introduced the definition of financial inclusion in 2008 "financial inclusion defines as providing access to financial services at an affordable cost." Descriptions of financial inclusion standardized by different authors are described as follows: -

a) According to the Reserve Bank of India in the year 2008- Financial inclusion is described as providing financial products and services to the needed and weaker sections of the society at reasonable prices.
b) According to the Planning Commission in the year 2009- "Financial inclusion is a term which described as access of financial services at a reasonable price to the vulnerable and weaker segments of the humanity.
c) According to Chakrabarty 2011, "Financial inclusion is the procedure of providing financial goods and services to the needy people of the society at a reasonable price impartially and clearly by financial intermediaries."

To sum up, financial inclusion describes as providing equal economic opportunities such as credit facilities, savings, and different banking services to all the citizens of the society.

Financial Inclusion in India

The notion of financial inclusion started in the year 1969 and 1980. But, the term financial

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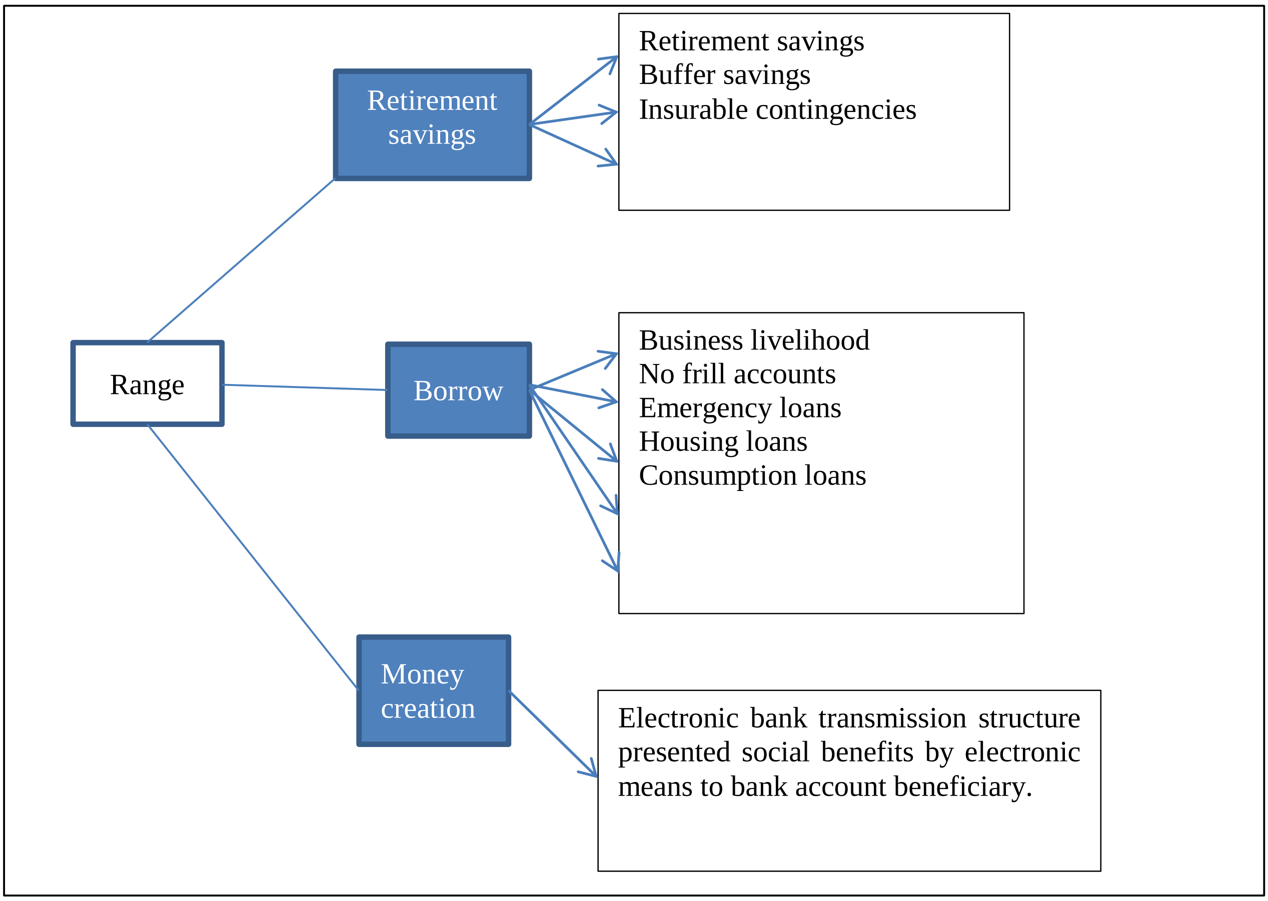
inclusion in India was started in 2004 by the Reserve Bank of India. The Reserve Bank of India kept a commission known as the khan Commission in 2004 to investigate monetary incorporation. In India, monetary consideration was firstly highlighted in 2005 by Dr. K C. Chakrabarty, the executive of the Indian Bank. There are many financial products and services under financial inclusion. A summary of which shown as follows:



Source: - A hundred little advances report of the panel on monetary changes (executive Dr. Raghuram Rajan)

The extent of financial inclusion: - According to the evaluation 2011 by the Administration of India, the degree of monetary incorporation was just 58.7% of families utilizing banking administrations in the nation. However, as contrasted and past statistics 2011, accessibility of banking offices augmented fundamentally to banking administrations in rural country zones. This is described in the given chart 1: -

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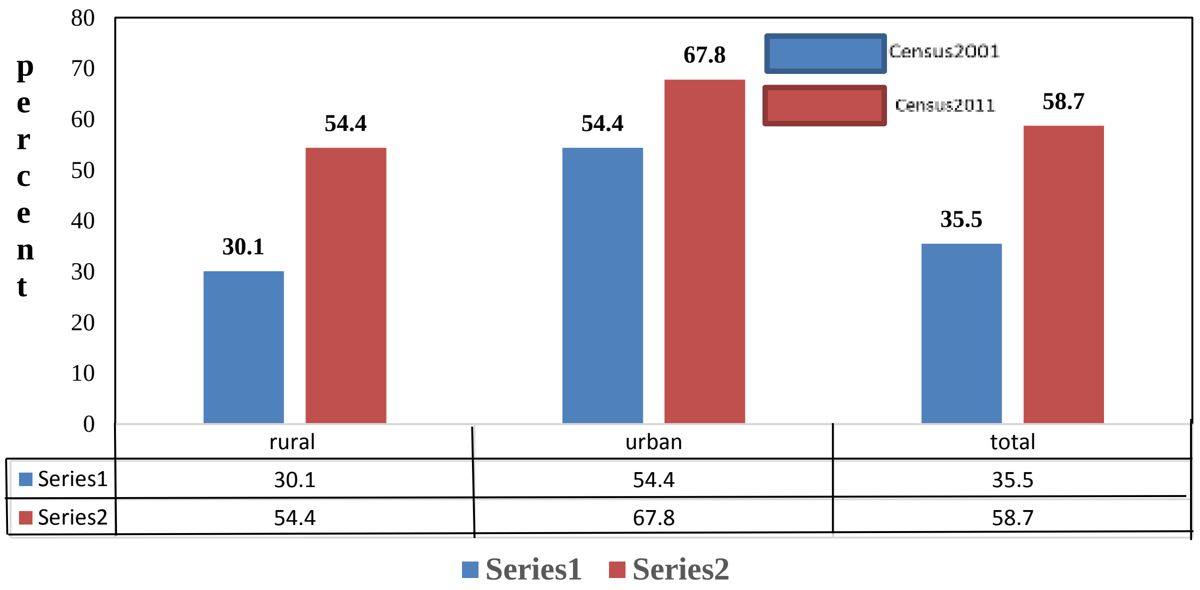
Table 1.Availability of banking services

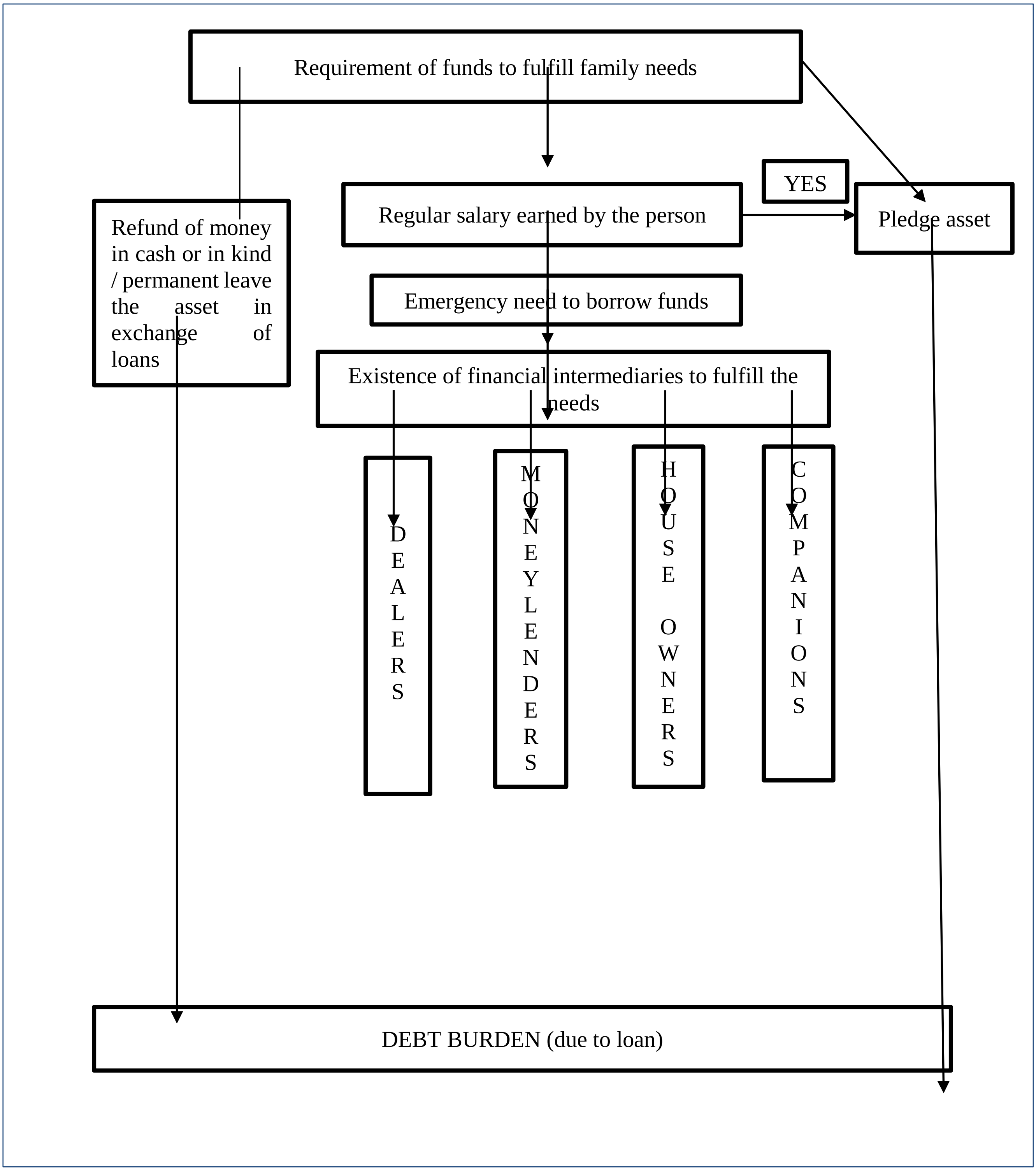


Source: Department of financial services, GOI. Census 2011

People from different regions behave differently while investing their incomes. Many people always prefer to keep their savings in banks, and others prefer financial intermediaries to save cash. But, the money in circulation means the funds move from one place or person to another in the form of payments. This helps to know the existence of financial inclusion in the economy. The (CAGR) compounded annual growth rate of the economy is 10.2%. It's based on comparing the past five years' payments made by different persons. The figures show that there have been ups and downs in the figures in the past five years. Somewhere it has shown upward trends but, in some years, it has a downward trend regarding financial payments. The statistics are based on reserve bank of Indian reports.

The improper financial system in India: - The legislative bodies framed plans and policies from time to time to make financial transactions more accessible, quicker, and easily approachable. For instance, in 2014, the prime minister started Pradhan Mantri Jan Dhan Yojana o open bank accounts with zero balance in public sector banks for everyone, such as people living below the poverty line. The main motive of this scheme was to provide banking facilities to everyone. This is why people suffer from substantial financial burdens; in case of need of funds, they depend enormously on friends and family members for any financial help. In addition, if they need loans and other financial assistance, they get it from money lenders, landlords, house owners, etc. The improper financial system is also shown in the given diagram 1.

"Model of the improper financial system of India that leads people into poverty"



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Source: Designed by Author

Description of the model for the financial inclusion

a) Financial inclusion and financial literacy support upgrading the knowledge between the people of all financial services.
b) In deepness, information and consciousness for financial inclusion provide support to diminish barriers to financial inclusion.
c) It is necessary to provide financial access and availability of financial inclusion at reasonable costs to all families, especially the rural and helpless groups.
d) It is mandatory to present financial inclusion for financial and institutional sustainability.
e) Financial inclusion is the pathway for many providers of financial services to maintain a cost-effective range of alternatives for clients.
f) Financial inclusion also helps to maintain social inclusion by making the individuals feel part of society.

Problem Statement of Financial Inclusion: - Financial inclusion played a significant role in the economy's expansion. Because everything in today's world is related to financial matters, India has been a developing nation since the 19th century. The primary reason behind this is the improper division of money among people. To exemplify, the people born into low-income families get poorer because of illiteracy, unemployment, lack of awareness about financial matters, proper usage of government plans and policies, and paying less attention to finances. On the other hand, people from wealthy families get more economic benefits. Developed countries such as Canada, Australia, the United Kingdom, the United States, Germany, Japan, China, Brazil, Switzerland, and so on are gaining more financial benefits, and they are strong financially because people living over there are well educated, and they have financial knowledge and awareness.

In addition to the above, financial inclusion is not a single term. It includes other aspects such as economic behavior, financial literacy, and social inclusion. It means financial inclusion not only to inculcate people in financial matters but also to provide them education, provide financial assistance in rural areas by providing services such as insurance, accessible medical facility, free education, no frill loan accounts, building new business ventures, and so on. The other big reason is that people have no income source in many rural areas. They cannot eat healthy food and survive their lives in non-bearable conditions. This is why the knowledge of financial matters plays a vital role. Because it will not only solve financial problems, but other problems of the economy such as (UPI) unemployment, poverty, and illiteracy would also be solved to a great extent. It has been seen from the records that many new financial establishments have been done to promote financial inclusion. There is still a need to set up new ATMs in parts of the nation to benefit people. The knowledge is also beneficial for government and other legislative bodies to set up microfinance units, financial brokers, and traders in required zones to help one and all.

Objectives of the study: -

i. To analyze the past and present progress of financial inclusion
ii. To draw up a model to examine the impact of financial literacy, financial behavior, and social inclusion on financial inclusion.

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Scope of the Study: - The primary scope of the study is to determine the impact of financial inclusion. Financial inclusion is not studied in isolation but is related to economic behavior, financial literacy, and social inclusion. Economic behavior stands for the rational behavior of the people regarding the investment and savings of the income. Everyone wants to invest to earn vast profits without more minor losses. Financial literacy is the knowledge and awareness among the masses regarding the investment of money. More than 70% of people still live below the poverty lines, and financial literacy through seminars, workshops, and so on, whether indifferent financial intermediaries. Social inclusion is also significant. Everyone has an equal right to participate in financial dealings irrespective of gender inequality, income, designation, religion, etc. The study of "impact of financial inclusion in the state of Punjab" would be able to provide financial inclusion status with the study of all the aspects which would be helpful to grow the nation by eliminating problems such as poverty, unemployment, less investment in financial resources by the general public and so on. Moreover, the study would benefit the legislative bodies and other enterprises working on financial inclusion to frame new plans and policies for the nation's welfare nation as a whole.

Review of Literature

The study is based on financial inclusion and its impact on individuals in society. To make an analysis and know what has been done and what is required, there is always a need to know the previous studies. Hence, an in-depth literature review has been done to get awareness about financial inclusion. In this, the theoretical and practical research papers, journals, books, and so on are included so that proper analysis has been framed for financial inclusion. It is not included research papers related to the Punjab region only the research paper related to foreign studies based on financial inclusion has also been included so that the future needs and the requirements of the research area on financial inclusion and its impact on Punjab will be studied more beneficially.

Financial Inclusion

Firstly, the central role is played by financial inclusion in the growth and development of the nation. The simple meaning of financial inclusion is to provide financial products and services to all the people of the society irrespective of the size of income, religion, and education level. It simply means that s finance offers equal opportunities for everyone. The Indian reviews related to financial inclusion have been included in this section.

Indian Reviews

Joseph (2014)[1], in his research paper **"A study on financial inclusion and financial literacy,"** discussed the details of financial inclusion and its role in the life of people living in rural areas. The researcher used both primary and secondary data to make a proper analysis. The preliminary data from 100 respondents were collected based on their saving habits, types of accounts maintained by them, ways to deal with finances by educated and non-educated people, and so on. The results described that many things still need to m people properly use financial products and services provided by public and private sector banks.

Sharma and Kukreja (2013)[2], in their research article "**An analytical study: - Relevance of financial inclusion for Developing Nations,**"-mentioned that financial inclusion is the main area for the inclusive growth and development of the nation. They studied books, magazines,

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research journal articles, E-journals, RBI reports, and NABARD reports to estimate the current status of financial inclusion in India. In the end, they concluded that the developing nations need to be familiar with the private enterprise's dealings with finances not only remain constant on banking facilities such as no-frill accounts and so on, because there is a need to focus on every part related to financial inclusion for the nation's overall development.[1]

In their research article, Gupta and Studies (2018)[3] discussed six variables linked with financial inclusion in Punjab, such as insurance, availing of cards facility, accounts in banks, borrowings, money transfers, and government schemes to analyze financial inclusion in Punjab. The study is based on primary data. The respondents filled up the 800-questionnaire, and 760 were used to make an analysis. According to the results, there is an increase in financial inclusion compared to the previous years. People have started taking privileges from financial intermediaries to make life more productive.

Nihinlola (2020)[4,] in his research article **"Evaluating the relationship between financial inclusion and social inclusion 2020,"** discussed the community living below the poverty line. In this article, Ghana state has addressed, based on secondary data, that 18000 households for research analysis. In Ghana, there are approx. Seven hundred million people are living below the poverty line. This is the main reason for the underdevelopment of the economy. There are many culprits, such as people believing the poor community can't take a loan from financial intermediaries. Moreover, they think that backward citizens can also not take financial assistance. In this paper, the ANOVA and Correlational techniques have been used for the studies. But still, there is a need to do more analysis to take all other variables related to financial and social inclusion.

Dr. Jatinder Kaur (2017)[5,] in his research paper titled **"Factors affecting financial inclusion: - A case study of Punjab,"** discussed the study of financial inclusion in the state of Punjab. she has taken different variables such as urbanization, illiteracy, andnnnnnnnnnnnnn poverty. The analysis concluded that urban areas are more developed because people over there have benefited more from the banks. The biggest reason behind this availability of banks in urban areas is more than village zones.

Koothers (2015)[6,] in his research article **"Financial Exclusion of the poor: -A literature review,"** discussed the reasons for financial exclusion in India. There are still more than 60% of the masses living their lives without any financial assistance. There are different reasons which have been detailed in this research paper. The study is based on a cross-sectional research study. According to the details given in the research paper, there is still a need to take more strict actions to eliminate poverty and educate people about financial inclusion.

Garg & Agarwal (2014), in their research paper **"Financial inclusion in India: - A Review of Initiatives and Achievements,"** based on comparing previous and present research papers. A difference has been found. It's also analyzed that developed and underdeveloped nations need financial inclusion. Still, the advanced government also needs financial inclusion to develop the country as e sustainable development depends mainly on the development of the economy, especially in the sector of poor sections of society. This is primarily possible by providing financial education to the nation's masses.

Achugamonu et al. (2020), in their research article **"Financial Exclusion of Bankable adults: -Implication of inclusive financial growth among twenty-seven SSA countries,"**

emphasize the G20 plan framed to make sustainable development all over the nation in the agenda 2030 of sustainable development. His research article discussed 27 sub-Saharan African countries through secondary data from world bank data records and other secondary sources, journals, and magazines. They even recorded financial exclusion rations such as 0.232, 0.365, and 0.222, which shows that there has been a no more significant increase in the ratio of financial inclusion over the past few years. The conclusion said that the most crucial reason behind this is the unemployment among the masses of different nations. When people have no jobs, they cannot earn money. Hence, they will not be able to take advantage of financial intermediaries.[2]

Sujlana & Darwin (2018), in their research paper **"Financial Inclusion in India- An Empirical Study,"** gave details about the past and present states of financial inclusion in India. According to them, since 2005, no significant progress has been seen in financial inclusion. Still, poverty, illiteracy, unemployment, and economic exclusion play critical in financial inclusion. The most crucial advantage is to take advantage of technology for better financial inclusion, especially in backward areas of the nation. Due to illiteracy, people cannot take advantage of financial products and services. Moreover, there is still a need to make plans and policies by the reserve bank of India and other legislative bodies framed for financial inclusion to make a serious effort to make moral progress of financial inclusion all over the nation.

Baghla (2018), in his research article **"Financial Inclusion in India: -Its need and future,"** mentioned that there is seen a significant amount of progress in financial inclusion as per data, 310million people have been included under the roof of financial inclusion in the past four years (2017-2021). the P.M. Narinder Modi believed that "SABKA SAATH SABKA VIKAS" to implement financial inclusion irrespective of the people's earnings properly. The Pradhan Mantri also eliminate Jan Dhan Yojana to make financial inclusion more progressive.

Singh et al. (2014), in their research article **"Financial Inclusion in India: Select Issues,"** mentioned that there is a need to make provisions by the Reserve Bank of India and other financial intermediaries assistance in case of emergencies in the families such as need finance for the education, need finance to build up buildings and financial markets to set up new ventures and so on.

(Inclusion & Markets, n.d. kkk) Their research article "Financial Inclusion-research initiatives" gave details about the technology and its advantages, especially for the people living in backward areas. In this research paper, it has been mentioned that mobile banking provides more significant assistance in promoting financial inclusion. Hence, the government must better promote these technologies to promote financial inclusion.

Ghosh (2014), in his research work **"Financial Inclusion for Inclusive Growth of India- A study of India States,"** mentioned the need for inclusive growth of the nation as a whole. Progress has been seen, but there is less progress in the financial inclusion sector. The researcher used secondary data for the study and measured gross domestic product, privatization, liberalization the percentage of increase in financial inclusion among the public.

Brief (2012), in his article named **"Financial Inclusion and stability: what does research show?** Described that the Reserve Bank of India has done broad-based research on financial inclusion with the assistance of other small sector banks. The primary purpose of the framework is to implement financial inclusion successfully. For this, there are four 4's linked

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with each other and also responsible for financial inclusion. These are i) financial inclusion, ii) financial consumer protection, iii) financial integrity, and iv) Financial stability; if any of these is missed and not worked on, this will lead to a lack in the nation in the case of financial inclusion.

Bus & Review (2015), in their research work **"Financial Inclusion in India: Shifting the base towards Growing Glory,"** mentioned that Pradhan Mantri Jan Dhan yojana the financial inclusion promoted to a great extent. But still struggling with the progress of financial inclusion, new plans and policies are framed daily to promote financial inclusion. There is a more significant role played by Pradhan Mantri Jan Dhan Yojana because, as per the scheme, 16 billion new accounts are opened by the public all over the nation, and deposited 106.8 billion INR in bank accounts. Financial literacy campaigns play a vital role in including everyone under the roof of financial inclusion. Hence, there is a need to take more initiatives to promote financial inclusion at the desired level.

(Kainth, n.d.) in his research paper titled **"Financial Inclusion in Rural India Punjab: -Evidence from fields,"** the agricultural areas from the three districts of Punjab, such as Majha, Malwa, and Doab, were explored. This is because the main reason for the underdevelopment of financial inclusion in Punjab is the people living in the backward areas; hence, this study focuses on back and the rural regions of Punjab so that the loopholes be found and also beneficial for the government to frame plans and policies accordingly.

Kitakogelu (2018), in his research article **"Impact of digital finance on Financial inclusion and stability,"** described the role of digital finance. It has been cleared by the author that there is a direct relationship between financial inclusion and digital finance. The number of crises related to financial inclusion is solved through digital finance. If more people become aware of it, it will benefit the economy more.

2. CONCLUSION AND SUGGESTIONS

From the above, it can be concluded that many developments have been seen in the context of financial inclusion. People from backward zones started investing their money in banks and other financial intermediaries. But illiteracy and lack of awareness about financial transactions still play a significant role. Moreover, as discussed, technology plays an important role. For example, mobile banking promotes financial inclusion to a large extent. Hence, government and other legislative bodies need to take serious steps toward it to grow financial inclusion.

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