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Reviewing Financial Inclusion: Evidence from International Literature Study

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Abstract

This study aims to analyze the present status of financial inclusion and identify key topics within this field, such as the determinants of financial inclusion, the evaluation and measurement of financial inclusion, and the relationship between financial growth and financial inclusion in India. This compilation assimilates substantial viewpoints from several scholars and specialists, so offering a more exhaustive portrayal of the financial inclusion domain inside a singular source. Several indices have been developed to measure financial inclusion, including the Maya Declaration, the Global Financial Inclusion Index, the Index of Financial Inclusion (IFI), and the 3 x 3 x 3 matrix approach. The utilization of CRISIL inclusix, a comprehensive index designed to monitor the progress of financial inclusion in India at the district level, provides valuable insights into the present status of financial inclusion growth in the country. The findings indicate a potential route to achieve universal financial inclusion, emphasizing the need of establishing physical connectivity across all channels and encouraging active engagement from many stakeholders. Banks, post offices, and self-help groups (SHGs) are identified as key entities capable of promoting inclusive economic development through financial inclusion. Financial inclusion offers a potential that is mutually advantageous for both suppliers of financial services and those who use these services. Hence, it is

imperative for individuals to utilize this resource and contribute towards the attainment of the goal of complete financial inclusion. The survey comprises a total of 75 publications published between the years 2005 and 2017. The chosen time frame was deliberately picked to encompass both contemporary and early issues within the subject, ensuring a comprehensive scope for the study.

Keywords: Financial Inclusion, Financial Determinants, Financial Measurement

Introduction

Financial inclusion can be described as a comprehensive and integrated process that ensures timely and adequate access to credit for vulnerable populations, such as low-income and disadvantaged individuals, in a manner that is fair, transparent, and affordable (Financial Inclusion Committee Report, 2008). Financial inclusion, sometimes referred to as inclusive financing, encompasses the facilitation of reasonably priced financial services to those belonging to economically disadvantaged and low-income segments of society. Financial inclusion encompasses the facilitation of affordable and feasible financial offerings that effectively meet the needs of both individuals and enterprises. The aforementioned services and products comprise a diverse array of capabilities, encompassing credit, insurance, transactions, payments, and savings. In addition, it is imperative that its distribution is carried out in a manner that is both responsible and sustainable, as stated by the World Bank in 2014.

Karmakar (2007) provides a definition of financial inclusion in the publication "Rural credit and self-help groups: micro finance needs and concepts in India," published by Sage Publications in New Delhi. The author describes financial inclusion as a concerted effort to integrate marginalized and vulnerable sectors of society into the organized financial system. Hence, it may be characterized

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as the facilitation of cheap access to credit and other financial services that are timely and adequate for vulnerable populations, encompassing individuals living in poverty and those belonging to marginalized communities. Chitra and Selvam (2013) argue that ensuring access to financial services is essential for promoting sustainable economic development and reducing poverty. Their empirical study, titled "Determinants of Financial Inclusion," examines inter-state variations in India (Chitra & Selvam, 2013, accessed at https://ssrn.com/abstract=2296096). Financial inclusion plays a pivotal role in fostering inclusive economic growth as a very successful policy tool. In accordance with the findings of Dr. C. Rangarajan's (2008) report on financial inclusion, the achievement of comprehensive financial inclusion in India necessitates the adoption of a mission-oriented approach. This approach entails active engagement of all relevant stakeholders and beneficiaries in the implementation of policy reforms and the execution of promotional endeavors, with the ultimate goal of attaining universal financial inclusion, encompassing the entire population.

The development of the financial sector has a positive impact on economic growth and expansion. The presence of maturity within a system fosters heightened levels of investment and enables economic development due to its extensive and profound nature. In her article titled "Financial Inclusion and Its Determinants: An Empirical Study on the Inter-State Variations in India," Bhawna Rajput (2017) argues that financial inclusion plays a crucial role in facilitating the smooth and efficient flow of funding required for economic growth and prosperity. This article was published in the International Journal on Arts, Management and Humanities, volume 6, issue 1. The present study aims to analyze the existing body of research on financial inclusion in order to identify key topics, factors of financial inclusion, metrics for measuring financial inclusion, and the impact of financial inclusion on the growth of the Indian economy.

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The research aims to achieve the following objectives:

1. Conduct a comprehensive examination and assessment of the existing body of scholarly work on the subject of financial inclusion, covering its origins, impacts, and domestic progressions.

2. Suggest prospective possibilities for additional exploration pertaining to financial inclusion.

Methodology

The analysis conducted in this study encompasses a total of 75 papers, which were published between the years 2005 and 2018. The selection of the chronological scope was intentionally made in order to capture the most recent and emerging difficulties within the sector.

The secondary data base for the study consisted of a diverse range of sources, including journals, websites, conversations, annual reports, and working papers.

Factors Affecting Financial Inclusion

In their publication titled "Financial Inclusion - A Path to Sustainable Growth," Bhatia and Dr. Singh (2015) conducted an analysis on the factors influencing the supply and demand of financial inclusion. This study was included in volume 4, issue 1 of the international journal of science, technology, and management. The variables on the demand side encompass factors such as literacy levels, comprehension of financial goods and services, and the degree of trust placed in well-established banking systems. Contrarily, the services and goods provided by financial institutions have a crucial role in shaping the supply side.

According to Subbarao (2009), Farnandes et al. (2014), and Garg & Agarwal (2014), financial literacy and financial education have been identified as significant determinants of financial inclusion at the Banker's Club in Kolkata.

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The inclusion of financial education and literacy is a crucial component within a comprehensive approach aimed at empowering consumers to effectively navigate the financial services network. Financial education has an impact on the demand side by enhancing consumers' understanding of the advantages and requirements linked to the financial services provided by banks and other institutions. In contrast, financial inclusion operates primarily from the perspective of the supply side. The amalgamation of these measures serves to enhance overall financial stability.

In their publication titled "Financial Literacy, Financial Education, and Decostream Financial Behaviors," Frenandes et al. (2014) performed a research that was published by the Institute for Operations Research and Management Science (INFORMS) in Maryland, USA.

A meta-analysis was undertaken to investigate the association between financial literacy and education, and financial habits. Existing research has provided evidence indicating that there is a more robust link between financial literacy and financial habits, as opposed to financial education.

The study put out suggestions regarding the potential for future advancements in financial education. The Reserve Bank of India implemented "Project Financial Literacy" with the objective of educating different target groups about the central bank and fundamental concepts of banking, recognizing the interdependence between financial inclusion and financial literacy (Subbarao, 2009).

The researchers of the study titled "The Impact of Gender: An Analysis of its Significance" The research conducted by Ghosh and Vinod (2016) examined the relationship between financial inclusion and gender in the paper titled "Advancing the Financial Inclusion Agenda in India." The paper was published in the Economic and Political Weekly journal. The application of multivariate

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regression has been employed to analyze various variables at both the household and state levels, leading to the identification of substantial disparities in the accessibility and utilization of financial resources. The likelihood of families led by women obtaining formal finance acquisition is 10% lower compared to households led by males. Comparable evidence can be identified with respect to the utilization of finance. Moreover, existing research suggests that families led by women often have a greater propensity to seek alternative forms of funding rather than relying on formal channels.

The research conducted by Rajput in 2017 was titled "Financial Inclusion and Its Determinants."

The Empirical Study on Inter-State Variations in India was published in Volume 6, Number 1 of the International Journal of Arts, Management & Humanities. The study assessed the disparities in financial accessibility across different states by examining the ratios of credit and deposit penetration. Furthermore, it investigated the determinants of financial inclusion for a total of 29 states throughout the period of 2006 to 2014, utilizing panel data analysis. The level of financial inclusion is influenced by a range of factors that can be categorized into three groups: (a) dependent variables, which include credit and deposit penetration; (b) independent variables, such as population density; and (c) additional explanatory variables, including the credit deposit ratio (CD), average population per bank branch (APPB), and other relevant variables. The study offered empirical evidence to substantiate the premise that a positive relationship exists between the standard of living and the level of demand for financial services.

Singh and Sharma (2018) introduced a regression model in their scholarly article titled "Socioeconomic status and financial inclusion: A study of

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Pratapgarh District of Rajasthan," which was published in the Indian Journal of Accounting (IJA), vol. 50 (1). The authors examined the correlation between financial inclusion and socioeconomic status. Age has no discernible effect on the availability of financial services, according to the study. However, socioeconomic status—consisting of income, literacy, dwelling type, and cardholders—has a significant bearing. Despite an increase in the number of people utilizing financial services, inclusive growth has not yet been attained, according to the study's findings.

Quantifying and Evaluating Financial Inclusion

Sarma (2008) formulated the Index of Financial Inclusion (IFI), which was subsequently published in working paper no. 215 by the Indian Council for Research on International Economic Relations. It assesses the degree of inclusivity in the following three areas: Accessibility, denoted as the ratio of bank accounts to the populace as a whole (a proxy for the degree of banking system penetration),

2. Availability (in order to determine the number of bank branches and ATMs per one thousand residents)

3. Usage (in order to assess the frequency and extent to which customers employ banking services)

The paper Financial Inclusion and Development: A Cross Country Analysis, authored by Sarma and Pais (2008), underwent extensive research and was published on pages 1-28 by the Indian Council for Research on International Economic Relations. A combination of the human development index pertaining to 49 countries globally and the IFI devised by Sarma (2008) were employed to compute the financial inclusion and human development levels. With the exception of a few exceptional cases, financial inclusion and human

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development levels are frequently correlated. With an IFI value of 0.20, India is ranked 29th.

In order to quantify the degree of financial inclusion in India, Gupte et al. (2012) developed a financial inclusion index (FII) in 2009 and 2010 using the database provided by CGAP, the global bank group. This was subsequently presented at the International Conference on Emerging Economics: Challenges and Prospects (ICEE 2010). This study distinguishes itself from prior investigations by incorporating several additional factors. The FII for India was computed using the same methodology as the HDI (2010 UNDP) calculation: it was a geometric mean of four essential dimensions—expenetration (comprising accessibility and penetration), utilization, convenience of transactions, and cost of transactions. The number of online platforms offering loan and bank account opening services is one of two factors that exhibit a direct correlation with the convenience of conducting payments. On the contrary, the relationship between transaction convenience and the remaining eleven parameters is inverse.

Mundra (2016) delivered a paper entitled "Financial Inclusion in India: The Journey Thus Far and the Way Ahead" at the BRICS workshop on Financial Inclusion in Mumbai, in addition to delivering a speech. He expanded upon the three Ps he identified in the paper—Products, Processes, and People—into a 3 x 3 x 3 matrix in order to assess financial inclusion. The initial three cohorts addressed by the three segment approach were as follows: (i) unorganised sector workers who earned modest wages; (ii) small and marginal producers; and (iii) micro and small industries. In the three surpluses method, the subsequent three items were (i) capital market investments and (ii) minor surpluses, including SIPs and recurrent deposits. (iii) with no significant surpluses produced. In accordance with the three institutions procedure, the third group of three included (i) renowned banks and (ii) financial intermediaries including MFIs and NBFCs. (iii) Innovative organizations,

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including SFBs. Attaining a state of robust inclusion is attainable through the application of requisite measures on the parts of both the supply and demand components.

Catalin (2017) noted in an article titled "Financial Inclusion as a Tool for Sustainable Development" that financial inclusion in developing and least developed nations can be utilized to promote sustainable development. In addition, she examined the role of the Alliance for Financial Inclusion (AFI) in establishing financial inclusion targets through the application of the Maya Declaration, a collection of fundamental metrics comprising three pillars: accessibility, utilization, and quality. In 2011, the Maya Declaration was unveiled during a forum on international policy. A total of 59 Maya declaration commitments have been ratified. At this time, nine of the thirty-two AFI members who have established goals for themselves have done so. Financial inclusion contributes in various ways to the advancement of sustainable development.

The Financial Inclusion and Development of India

The efforts and progress made in ensuring access to financial services and promoting economic growth and development in the country. In a research done by Shah and Dubhashi (2015), an examination was undertaken on the topic of financial inclusion, specifically focusing on the factors associated with inclusive growth. The article was published in the Chanakya International Journal of Business Research, Volume 1, Issue 37-48. The researchers conducted a comparative analysis of the progress made in financial inclusion in India in relation to other nations. The database contains data indicating that the adult account penetration rate in India was judged to be 35%. This figure is based on the mean value of 43.7%, with women accounting for 26.5% of the total. The study focused on CRISIL Inclusix, a comprehensive index that utilizes a methodology similar to those of other worldwide indices to evaluate the

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progress of financial inclusion in the country at the district level. Integration was seen among the three essential elements of core banking services, namely branch penetration, deposit penetration, and credit penetration.

Siddiqui (2018) conducted a study titled "Financial Inclusion in India – A Catalyst for Sustainable Economic Growth" to examine the importance of financial inclusion in enhancing India's economic position relative to other countries and its influence on social and economic advancement. The research findings were disseminated by publication in the International Journal of Management and Applied Science, namely in Volume 4, Issue 2. Policymakers see the largest microfinance program globally, situated in India, as a pivotal instrument for the elimination of poverty and the promotion of development. The study also emphasized the association between a country's degree of financial development and its CRISIL inclusix score, whereby higher scores are indicative of enhanced financial inclusion.

Joseph and Varghese (2014) conducted a study titled "The Impact of Financial Inclusion on the Development of the Indian Economy" to examine the relationship between financial inclusion and the economic growth of India. This study was published in the Journal of Economics & Sustainable Development, volume 5, number 11, due to the considerable policy significance attached to financial inclusion in developing nations. In order to evaluate the present situation of financial inclusion (FI) in connection to the growth of the Indian economy, a study was conducted on five private sector banks and five state bank consortia. The findings of the study indicate a significant rise in the utilization of debit and credit cards within the designated time frame. Furthermore, financial institutions have demonstrated an increased focus on extending their services to rural and semi-urban areas. However, it is important to note that there remained significant limitations on the availability of banking goods and services.

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Dixit and Ghosh (2013) conducted a comparative analysis of Indian states in terms of financial inclusion (IFI) indicators and the impact of financial inclusion on inclusive development. This analysis utilized a hierarchical clustering technique, utilizing a dendrogram and considered the average connectivity between clusters. The publication titled "Financial Inclusive Growth of India" (1) presents an examination of several Indian states. This analysis can be found in Volume 3 of the International Journal of Business Management and Research. In China, 64% of the population holds a formal institution account, whereas in Germany, this figure stands at 98%. In India, on the other hand, just 35% of the population possesses such an account. The quantification of financial inclusion at the state level has been accomplished through the utilization of the financial inclusion index. This index takes into account three key parameters: banking penetration, availability of banking services, and banking system usage. The observed disparity in the level of financial inclusion among different states has been recognized.

In their study titled "Triggers and Barriers for Exclusion to Inclusion in the Financial Sector," Sood and Mukherjee (2016) examine the influence of financial inclusion on economic growth and development. They employ a comprehensive multidimensional financial index, derived through a two-stage principal component analysis, which takes into account both the supply and demand dimensions of financial inclusion. The analysis is conducted at a country-specific level, allowing for a nuanced understanding of the impact of financial inclusion on various economies. During the period from 2004 to 2015, the dataset pertaining to the supply side encompassed 47 notable variables for a total of 152 nations. In contrast, the dataset pertaining to the demand side consisted of information from 59 countries on a worldwide scale. The survey approach was utilized to get the sample size, which was administered over a period of two years, spanning from 2011 to 2014. The findings of the two-stage principal component analysis (PCA) revealed a positive correlation between

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financial inclusion and the level of development and income in nations. Specifically, developed and high-income countries exhibited the highest levels of financial inclusion, whereas the opposite trend was observed in less developed and lower-income nations.

Conclusion

In summary, the path towards attaining financial inclusion, Financial inclusion plays a pivotal role in the attainment of equitable growth, a fundamental requirement for sustainable and long-lasting economic progress and expansion (Siddiqui, 2018). In order to enhance financial inclusion, the Reserve Bank of India (RBI) foresees the establishment of around 600 million more consumer accounts by the year 2020, as stated by Shah and Dubhashi (2015). In his scholarly analysis on the subject of financial inclusion and banks, Chakrabarty (2011) highlighted the key obstacle to achieving financial inclusion as the problem of establishing a last mile connection. Financial institutions are obligated to develop their business strategies and delivery methods with the aim of quantifying this matter and achieving the specified objectives. Furthermore, it is important to ensure that they are equipped with sufficient infrastructure, including uninterrupted power supply, both physical and digital connectivity, and other related necessities. Effective collaboration among various stakeholders, such as governments, regulators, financial institutions, industry organizations, technology companies, non-governmental organizations, self-help groups, and civil society, is imperative to ensure the appropriate development of the ecosystem. Chavan and Meshram (2016) contend in their scholarly article titled "An old business driver with transformed services: A way towards sustainability and economic development," published in the Chronicle of the Newille Wadia Institute of Management Studies and Research, that meticulous planning and customization of products are essential for attaining

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the goal of financial inclusion in its most comprehensive manifestation. According to the scholarly article titled "Measurement of Financial Inclusion" published in the International Journal of Advanced Research in Management and Social Science, volume 4, the authors Revathy and Maheswari (2015) discovered that financial institutions such as banks, post offices, and self-help groups (SHGs) possess a significant potential to facilitate inclusive economic development through the promotion of financial inclusion. It provides them with a significant economic opportunity that fosters initiative and growth.

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