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Comprehensive Literature Survey on Financial Inclusion

KEYWORDS: Financial inclusion; Financial exclusion

R.Magesh Kumar	Dr.C.Samuel Joseph
Assistant professor, Research Scholar, Karunya University	Professor, karunya University Business School

ABSTRACT *Financial inclusion is a state where all the individuals in a population can have access to desired financial products and services in order to manage their money effectively. It has become an important focus and agenda for the government as this is a pre requisite for improving the employment, economic growth, savings, and to reduce the poverty of people. Availability of such financial services was available only through brick and mortar model but it has become easier today due to the recent developments of technology like automated teller machine ,credit/ debit card, internet banking, online money transfer, mobile banking. Even though there are many researches carried out about financial inclusion, its impacts, accessibility, reasons for financial exclusion, in many places of India, there is only a handful of research paper based on literature. In this background the study has included many propositions and tries to analyze each of them with many empirical evidences and research studies.*

Introduction

Over the years Reserve bank of India and the government of India had taken many initiatives to address the issue of inclusive growth. Since 2005 the agenda of the Reserve bank is to bring the vast population within the structure of banking system (Mohan, 2006). Still there are a large number of people in many villages, rural and tribal areas, small and medium enterprises do not have adequate access to financial sector which could deny their opportunity to grow and prosper. Therefore Reserve bank has introduced many initiatives to improve the expansion of financial services in the country.

Conceptual frame work of Financial Inclusion

"Expanding access to financial services, such as payment services, savings products, insurance products, and pensions".(Raghu ram Rajan, 2011).CRISIL defines financial inclusion as "The extent of access by all sections of society to formal financial services, such as credit, deposit,

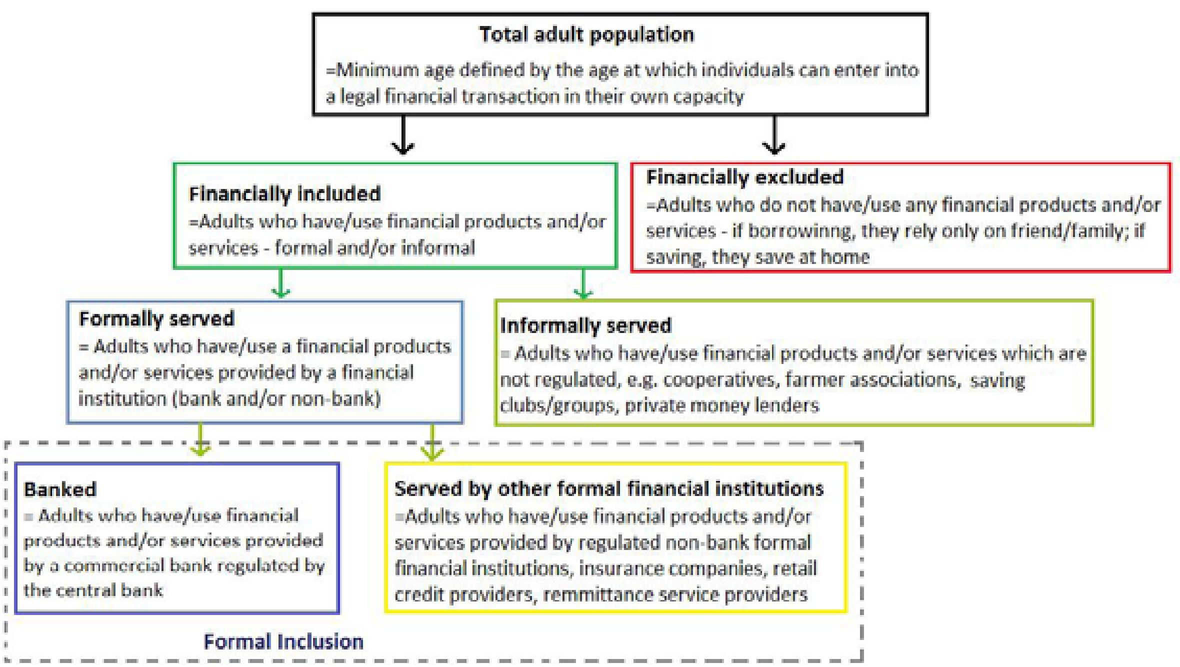

Figure 1: Conceptual frame work of Financial Inclusion, Source: (Purnima & Surekha, 2012)

Insurance and pension services". (Crisil Inclusix , June 2013)."Financial inclusion is defined as the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost (Kamath, 2007)

Objective of the study

The main aim of the study is to conceptualize the various concepts of financial inclusion. For this many propositions has been proposed and the inferences are derived from many empirical evidences, past research papers and litera-

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ture based on financial inclusion.

Proposition 1
Table 1: Accessibility of bank accounts and financial services will improve the socio economic background of the poor people

Author, Year	Key Findings
Leeladhar, 2006, Subbarao, Thorat, (2007).	Indian banking industry has grown at a very fast pace. But still the banking service has not reached the low income and poor people. Efforts are taken as financial inclusion can really improve the standards of the disadvantaged people
Littlefield et al, (2006)	Usage of financial services by the households should be determined by access to bank account
Fernando, (2007)	Access to financial services refers to use of formal or semi formal financial services in an appropriate form at reasonable prices when such services are required
Kemp son ,(2006)	But has observed that such remittance to the people has resulted in non usage of bank account by the account holders as they only just withdraw the money from the account.
Peachy and roe , (2004)	According to (peachy and roe. 2004) financial services provided by the banks have outreached to the majority of the population in developed countries

Proposition 2
Informal sources forms a major source of finance for tribal population
Informal sources of finance forms a major source for tribal people for managing their livelihood (Singh, 2004).These major sources come from free loans from friends or relatives although people were using micro finance services. Transactions of using such micro finance services by tribal people constituted less than 15% (Rutherford, 2003). Many empirical studies in the past revealed that a good and efficient financial system is necessary for the better development of a nation (Shaw, 1973, Obstfeld 1994, Levine 2002). A strong bank network and availability of banking services is necessary for expansionary activities (Feldstein, Horioka, 1980, Ford and Poret, 1991). In a study conducted by Ageba, Amha (2006) found that most of small and medium enterprises use informal source of finance such as friends and relatives rather than borrowing from a bank loan. In a study conducted among tribals in Nilgris district (Dr.U.Jerinabi & Dr.P.Santhi, 2009) about33.2 percent of the respondents are not having a bank account. The reason is that they don't have money to open a bank account. Nearly 71.4 % of the respondents were not familiar about deposits and saving before account opening.

Proposition 3
Table 2: There are many barriers which affect the outreach of financial services and products to the low income and disadvantage people

Author, Year	Key Findings
Subbharao, (2009)	There are many barriers which affect the bottom of the pyramid (Subbharao,2009).The barriers have become big both from the demand side and supply side
Thorat (2007), Agrawal (2008)	Demand factors are illiteracy, unwillingness and supply side barriers are difficult procedures, unsuitable products, staff attitude these make the barriers a little wider
United Nations, (2006).	According to a survey by bank managers in Madhya Pradesh found that borrowers especially women were more trustworthy and they are prompt in remitting their payment
Kempson ,(2006)	Many rural households still holds a wrong perception in their mind that banks are meant for educated and richer individuals.

Proposition 4
Table3: Indirect evidence shows that financial depth aids in alleviation of poverty

Author, Year	Key Findings
Li et al, 1997	In his study argues that reaching out the banking services to rural and poor people have decreased the inequality and increased the income of the people nearly about 80%.
Basu, (2005)	Informal lending is widely practiced by marginal farming households followed by small and commercial households which indicate that marginal farmers are denied of formal credit.
Dehijia & Gatti, (2002) & Honohan, (2004)	Has found results from his study that child labour is positively correlated with poverty because it highly influenced by the financial depth of a country
Rutherford, (1996)	In a similar vein financial depth of a country need not only improve the quality of the poor people but it also helps them to manage the little money they have.

Proposition 5
Table 5: Does Usage of No frill account have achieved the objective of financial inclusion?

Author, Year	Key Findings
Chandrakumar (2009)	In his study on understand the banking behavior of the financially included rural population in Madurai district" has found that economic viability and social acceptability are the two pillars for the sustainability of the system.
Thyagarajan and Venkatesan (2008)	A study report on Cuddalore District were large variation in terms of reporting willingness and unwillingness by the banks indicating the seriousness, or lack of it, with which different banks participated in the household survey work.
Minakshi Ramji (2009)	In his study on Gulbarga district access does not mean usage, and as such, opening bank account without accompanying training or marketing may simply result in additional costs for the bank without any benefits to the community.
Galor &Zeira (1993)	Further poverty alleviation and positive growth of the economy can be achieved by broader access to financial services.
Beck &de la torre, 2006)	Although the link between financial depth and growth is well known, the link between the breadth of financial services and growth is less well defined

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Conclusion

The study has included many propositions and tries to analyze each of them with many empirical evidences and research studies. Evidences show that an access to bank account will enable an individual from a poor household to perform better financial functions such as increase savings from his income, accessing credit, insurance, pensions, making loan or premium payment through the availability of bank account. Evidences signify that demand and supply factors act as a barrier in accessing financial services and products. The opening of No frill account does not mean, the objective of financial inclusion has achieved. The real measure of breadth of financial services indicates how many people have really access and used their bank account frequently. Mostly in tribal area availability of banking services is a great barrier for accessing financial services. The study has further added that the first step to achieve 100% financial inclusion is by creating awareness of the drive and providing financial literacy among people.

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