

Financial Inclusion: Flourishing Bancassurance Business

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Abstract:

Financial inclusion is an innovative concept which makes alternative techniques to promote the banking habits of the people. The term 'financial inclusion' has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. The main aim of financial inclusion is providing banking/financial services to all people in a fair, transparent and equitable manner at affordable cost. Households with low income often lack access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a saving bank account or availing a loan. These families find it more difficult to save and to plan financially for the future. Thus, the unbanked public is largely cut off from the banking products/services. Banks can work out innovative and profitable models, which will lead to a win, result both for the beneficiaries of financial inclusion and banks themselves. Banks can encourage micro and small business enterprises also with innovative models, utilizing soft interventions and hard interventions. The present paper specially focuses on how the financial inclusion is a viable business model for banks.

Keywords: Financial Inclusion, Banks, Banking Services, Deposit expansion, Credit Expansion

I. INTRODUCTION

Financial Inclusion is one of the important ways towards inclusive growth. It helps in the overall economic development of the people/society. It is also considered to be a business opportunity for the formal financial institutions and help them in penetrating into unbanked areas. The main pillars of inclusive growth are productivity, employment, financial inclusion and infrastructure development. Availability, Accessibility, Awareness and usage are some of the essential ingredients needed for inclusive growth. Financial inclusion is a flagship programme of the Central Bank. Its objective is to bring the people under the ambit of formal financial system.

To push towards universal financial inclusion, the Reserve Bank has taken several initiatives. These include advising banks on devising their Financial Inclusion Plan and constituting a Financial Inclusion Advisory Committee (FIAC). The Committee, under the Chairmanship of Dr. K.C. Chakrabarty, is helping banks to develop a viable and sustainable model of banking services that focus on accessible and affordable financial services. To sensitize financially illiterate people, financial literacy programmes have been initiated by the Reserve Bank in collaboration with commercial banks. Opening multiple channels of credit delivery is expected to improve access to institutional credit for excluded people, which, in turn, may help bring them within the ambit of the growth process.

Parameters of Financial inclusion

Financial inclusion policy comprises the following:

1. No Frills Accounts
2. Simplification of KYC norms
3. Use of Intermediaries
4. Introduction of General Credit Cards
5. Use of Technology
6. Use of Regional Language
7. One-time Settlement
8. Financial Education

Initiatives of RBI for Financial Inclusion help the underprivileged participating in the economic development and country's inclusive growth.

II. REVIEW OF LITERATURE

The experience of Financial Inclusion is not just about access to products but also the quality of engagement with those products and the need for individuals to develop skills and confidence to make informed decisions (**Regan and Paxton, 2003**). Financial Inclusion rests on three pillars, viz: access to financial services, affordability of such services and actual utilization of such services. FI can be achieved only if all the three pillars show affirmative results. Thus, the ABC of Financial Inclusion is Advice, Banking and Credit (**Shetty, 2006**). The Eleventh Five Year Plan (2007-12) envisions inclusive growth as a key objective. Inclusive growth as a strategy of economic development received attention owing to a rising concern that the benefits of economic growth have not been equitably shared. Population plays an active part in the economic growth which is much more likely to identify with the rest of the society contributing towards stability and to have a sense of ownership and belonging thereby. Belonging means having something to lose and this sense is fundamental to social cohesion (**Moreno, 2007**).

Recently the debate expanded to include the notion of financial exclusion as a barrier to economic development and the need to build inclusive financial systems. Besides banking, insurance companies too would be required to target Bottom of the Pyramid people to achieve inclusive banking and in turn to achieve inclusive growth (Beck, et al., 2008). Inclusion is not about deciding things for people, it is about giving people a choice, giving people the power to decide for themselves and FI is not something that is to be done in the future. It has to be done now (Bhave, 2009).

A vast segment of India's population exists on origins of India's financial systems. There is growing concern about people being 'under banked'. In the authors point of view financial inclusion is important priority of the country in terms of economic growth and development of society. It enables to reduce the gap between rich and poor. It helps to channelize money-flow to the economy; it ensures people who are unable to access financial system so far can access it with ease. This paper has discussed the role of financial inclusion in the economy and how the different stakeholders play an important role in developing the whole initiative. Finally, a financial product plays a very important role in creating a financially inclusive ecosystem (Akhil Damodaran, 2016).

Financial Needs of the Poor

IFAD report (2004) shows that the financial service needs of the poor are not indefinite, but their satisfaction can have very far-reaching results. Most of the world's poor people want access to basic financial services that would help them manage their assets and strengthen income. If they have access, available and affordable financial services bring new economic adoption, self-confidence, and empowerment. For example, micro-credit and microenterprises have drawn many women into commercial economic activities for the first time, allowing them to take advantage of new opportunities and expand new roles as cash income earners and economically influential members of the community. They have increased their income, productivity, and decision-making power, which have, in turn, supported them to play a dynamic role in social change. The key strategy is to see financial inclusion not just as a social primacy but as a great demand for even basic financial services in underserved section of the population. Therefore, the private financial institutions should be taken up in all the areas. The restriction lies in achieving scale effectiveness that makes it worthwhile for the private sector to reach these markets (Eswar Prasad., 2010).

Objective of the study

-To forecast the population wise trends and growth of the Deposit expansion and Credit expansion of the banks in Tamilnadu from the year 2017 to 2020.

III. RESEARCH METHODOLOGY

The present study is analytical in nature and data has collected from Tamil Nadu State Level Bankers Committee Member (Indian Overseas Bank). Time Series Analysis has used to measure the data. The sample period is for 5 years which extends from 2012 to 2015. XLSTAT-2016 Statistical software package has been used for coordinating the data and undertaking the statistical analysis.

IV. ANALYSIS AND INTERPRETATION

A time series analysis is a dynamic distribution which reveals good deal of variations over time. The main objective of using this analysis is to decompose the various elements present in a time series and to use them for business decision making. It has a considerable influence on the future business activities. This analysis will help to forecast the future performance of the selected banking facilities in the name of Credit Expansion and Deposit Expansion from the year 2016-2020 for different population groups like rural, Semi urban, Urban and Metropolitan because Aggregate Credit and Debit in bank are most effecting parts of Financial Inclusion.

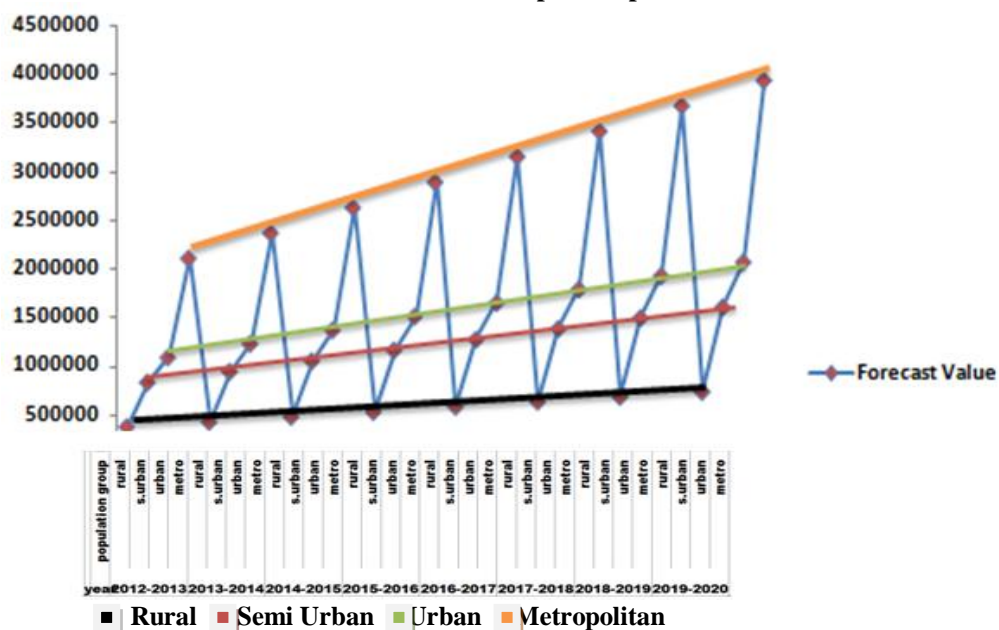
Deposit Expansion in Tamilnadu

SI No	Year	Population group	Aggregate deposit
1	2012-2013	Rural	365,504
2		S.urban	810,474
3		Urban	1,101,766
4		Metro	2,188,028
5	2013-2014	Rural	410,669
6		S.urban	933,345
7		Urban	1,250,970
8		Metro	2,511,958
9	2014-2015	Rural	484,888
10		S.urban	1,054,852
11		Urban	1,424,163

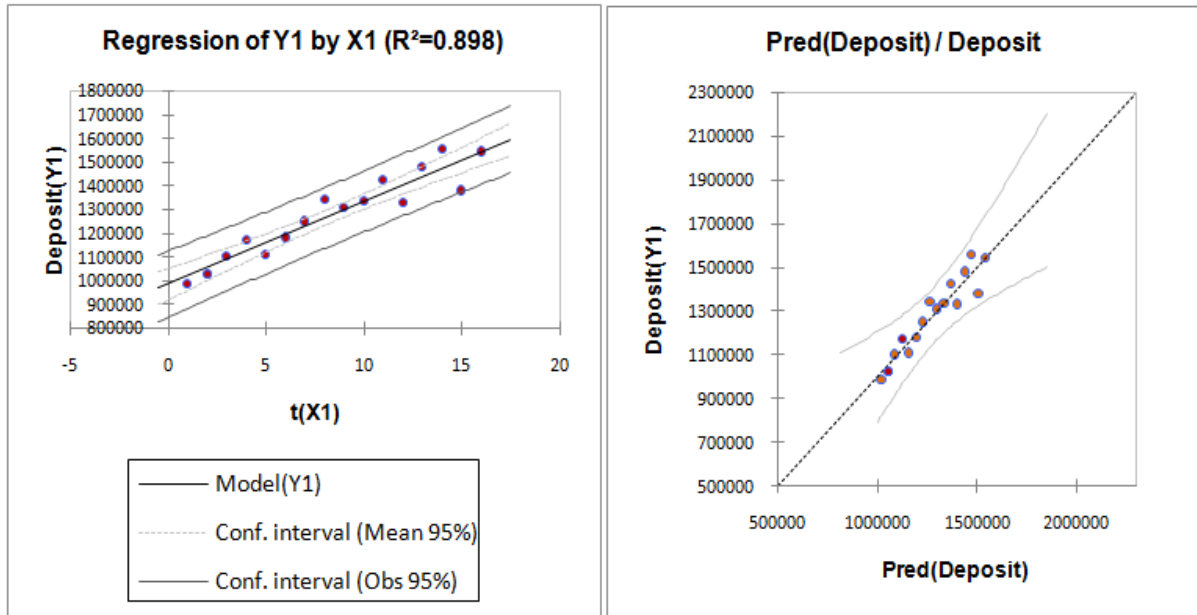
12		Metro	2,489,598
13	2015-2016	Rural	547,427
14		S.urban	1,230,171
15		Urban	1,380,277
16		Metro	2,887,520
17	2016-2017	Rural	584587
18		S.urban	1275740
19		Urban	1649757
20		Metro	3150300
21	2017-2018	Rural	636233
22		S.urban	1386011
23		Urban	1789340
24		Metro	3411321
25	2018-2019	Rural	687879
26		S.urban	1496282
27		Urban	1928924
28		Metro	3672342
29	2019-2020	Rural	739525
30		S.urban	1606553
31		Urban	2068507
32		Metro	3933363

Coefficient	t	Pr > t
986735.777	32.506	< 0.0001
34895.843	11.116	< 0.0001
R ²	0.898	
95% of confidence Interval		

Time Series Plot of Deposit Expansion



Regression Plot of Deposit Expansion and Predicted values



The above mentioned time series plot and regression plot graphically shows the present trend of deposit expansion from the year 2012-2016 and forecast about the deposit expansion up to 2020. The vertical axes of graphs show the aggregate Debit Expansion (in banks of tamilnadu) respectively for the years 2012-2016. The horizontal axes show the population groups namely rural, Semi Urban, Urban and Metropolitan.

Bank deposits consist of money placed into banking institutions for safekeeping. These deposits are made to deposit accounts such savings account, Current account and money market accounts. Banks accept deposits in the form of current, savings and term deposits. It collects the surplus balances of the individuals, firms and finances the temporary needs of commercial transactions. The first task is, therefore, the collection of the savings of the public. The bank does this by accepting deposits from its customers. Deposits are the lifeline of banks.

Deposit Expansion is predicted on the basis of coefficient value $Y1=986735.777$, $X1=34895.843$, $R^2=0.898$ at 95% of confidential Interval.

The above table shows Deposit expansion in Tamilnadu from the years 2012 -2020. The population is categorized like Rural, Semi Urban, Urban and Metropolitan. In the year 2012-2013 deposit expansion was 3, 65,504 crore in rural area. In the year 2015-2016, 547,427 was the total deposit expansion and as per the time series analysis result in the year 2019-2020, deposit expansion will be 7,39,525 crore in rural areas of Tamilnadu. In Semi urban people deposited 8, 10,474 crore in the year 2012-2013. In the year 2015-2016; 12, 30,171 crore was deposited by semi urban population. And the result of time series analysis shows that 16, 06,553 crores will be deposited in the year 2020. In the year 2013, 11, 01,766 crore was deposited in Urban area and 13,80,277 crore was deposited in year 2016. As per the forecast result in the year 2020, 20, 68,507 crore will be deposited. In metropolitan area in the year 2012, 21,88,028 crore was deposited. In the year 2016, 28,87,520 crore was deposited. The time series analysis forecasts that 39,33,363 crore will be deposited in the year 2020 by metropolitan population.

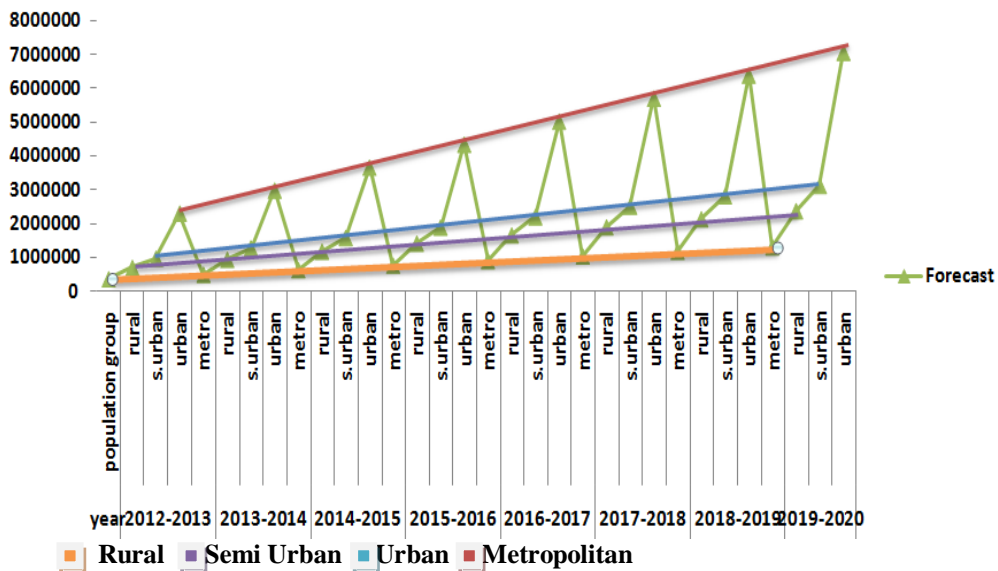
Credit Expansion of Total Population of The Tamilnadu

SI No	Year	Population group	Aggregate Credit
1	2012-2013	Rural	7,605
2		S.urban	917,947
3		Urban	1,256,264
4		Metro	2,820,131
5	2013-2014	Rural	570,661
6		S.urban	1,034,826
7		Urban	1,354,066
8		Metro	3,120,510
9	2014-2015	Rural	638,216
10		S.urban	1,127,919

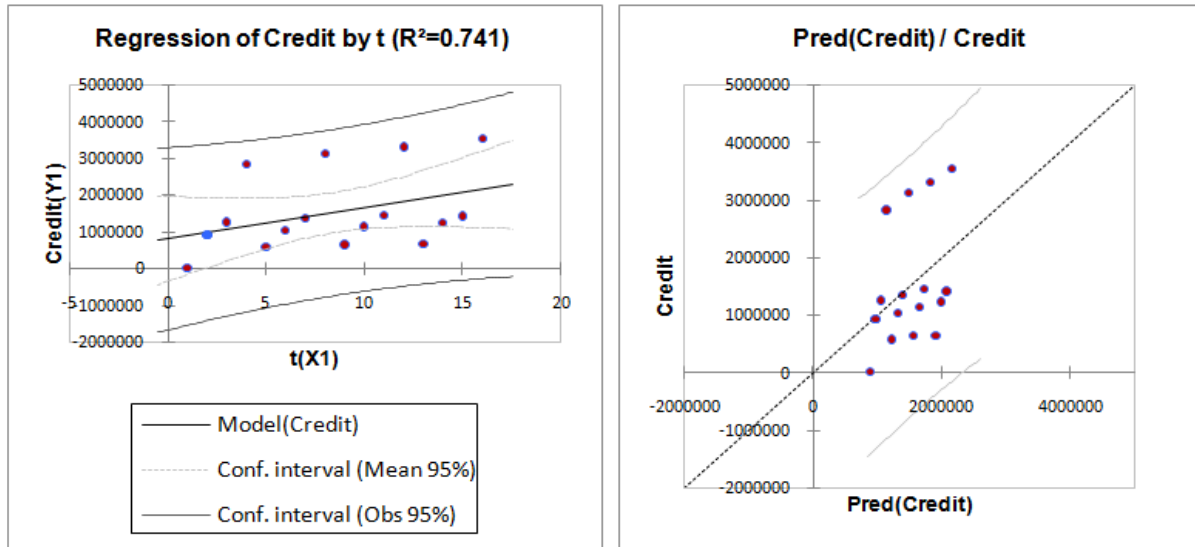
11		Urban	1,440,969
12		Metro	3,309,095
13	2015-2016	Rural	646,962
14		S.urban	1,227,604
15		Urban	1,411,039
16		Metro	3,537,493
17	2016-2017	Rural	898151
18		S.urban	1654280
19		Urban	2197255
20		Metro	5023311
21	2017-2018	Rural	1033501
22		S.urban	1894527
23		Urban	2505176
24		Metro	5703445
25	2018-2019	Rural	1168851
26		S.urban	2134773
27		Urban	2813098
28		Metro	6383579
29	2019-2020	Rural	1304201
30		S.urban	2375019
31		Urban	3121019
32		Metro	7063713

Coefficient	t	Pr > t
807284.775	1.499	0.156
84593.754	1.519	0.151
R ²	0.741	
Confidential Interval- 95%		

Time Series Plot of Credit Expansion



Regression Plot of Credit Expansion and Predicted values



The above mentioned time series plot and regression plot graphically shows the present trend of credit expansion for the years 2012-2016 and forecasts the credit expansion up to 2020. The vertical axes of graphs show the aggregate Credit expansion (in banks of tamilnadu) respectively for the years 2012-2016. The horizontal axes show the population groups namely rural, Semi Urban, Urban and Metropolitan. Credit expansion is predicted on the basis of coefficient value $Y1=807284.775$, $X1=84593.754$, $R^2=0.741$ at 95% of confidential Interval.

The above Table shows credit expansion in Tamilnadu from the year 2012 -2020. The population is categorized as Rural, Semi Urban, Urban and Metropolitan. In the year 2012-2013 credit expansion of rural population was 7,605 crore. In the year 2015-2016, credit expansion was 646,962 in rural area and as per the forecasting result in the year 2019-2020, 1304201 crore will be the credit expansion of rural people in Tamilnadu. In Semi urban people had 917,947 crore credit expansion in the year 2012-2013. In the year 2015-2016, 1,227,604 crore credit amount was sanctioned for the Semi Urban population. And the result of time series analysis shows that 2375019 crore will be sanctioned in the year 2020. In urban area up to 2013 only 1,256,264 crore was sanctioned as a credit amount. And 1,411,039 crore was sanctioned in year 2016. As per the forecast result in the year 2020, 3121019 crore will be sanction. In metropolitan area in the year 2012, 2,820,131 crore was sanctioned and In the year 2016, 3,537,493 credit amount was sanctioned. The result has predicted that 7063713 crore credit amount will be sanctioned in the year 2020 for metropolitan population. A well-functioning financial sector is vital for enabling money and credit to redress to the demand from households and firms.

V. FINDINGS

Time series analysis indicates the future trend of Branch Expansion, Credit Expansion and Deposit Expansion from 2017 to 2020. There is a positive growth in Deposit and Credit expansion. And it will help to increase financial inclusion level in Tamilnadu.

VI. SUGGESTIONS

Deposit inclusion and Credit inclusion is very important factors of financial inclusion. It will help to expand branch networks and basic needs of the people. There is a need for improvement of financial awareness facilities. Whatever products are available are not known to the population. Financial awareness is a must for financial inclusion; population should have proper knowledge, behavior and attitude; then only successful implementation of financial inclusion plan can be achieved. Financial literacy education programs, FLCCCS and RSETI can help to increase several potential benefits such as better financial decision making, reduction in micro enterprises and sustainable development.

VII. CONCLUSION

The nurturing in money and credit is influenced by a number of factors, such as demand from households and firms, market conditions, the regulatory framework for the financial sector and India's National bank's monetary policy. A well-functioning financial sector is vital for enabling money and credit to redress to the demand from households and firms. Financial inclusion is one of the key elements that will in turn play a pivotal role in achieving inclusive growth of our economy.

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