

Financial Inclusion : an Assessment of Lucknow District

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ABSTRACT

'Financial Inclusion' is the combination of two terms, one is financial which means 'Related to Finance' and other is inclusion which means 'To Include'. India is a huge country having inestimable resources. After having vast resources India lies in the category of developing nations. Poverty and unemployment are major problems which are affecting Indian economy badly. An uneven distribution of resources is one of the prominent cause behind poverty. According to 'The Hindu' - India's 1 per cent richest population own 58 per-cent of its total wealth. This data is clearly reflecting an immense economic gap. To tackle these problems an inclusive growth is required followed by equal chance to access the resources, equal opportunities and equal distribution of wealth. If we talk about financial needs and financial services accessibility, it is enough hard to access financial services for a significant part of the whole population known as 'under-privileged'. The World Bank group considers financial inclusion a key enabler to reduce poverty and boost shared prosperity. Financial inclusion can be defined as the distribution of financial services to low income sections of the society at reasonable cost. Financial inclusion and inclusive growth are positively related. Financial inclusion leads an economy to the inclusive growth. The present paper focuses on understanding the concept of financial inclusion and financial inclusion initiatives with especially in Lucknow district. The main objectives of this paper is to discuss financial inclusion initiatives started by various institutions in Lucknow, to define financial inclusion status of Lucknow and discuss essential requirements for smooth and fast financial inclusion. This is a descriptive type paper. The source of data collection is secondary. The study will display the financial inclusion status of Lucknow with the help of tables.

Keywords: Financial Inclusion, Financial Inclusion Initiatives, Inclusive Growth

1.0. INTRODUCTION

India is a rapid growing economy having a lot of resources to utilize but still lies in the queue of developing nations. Extreme poverty due to income inequality is the major obstacle in the way of fast and barrier free growth. Inclusive approach is required in order to overcome the major hindrances and attain world class growth. Nation's growth depends on its social, economic, agricultural, technological sustainable development. Equally distributed economic growth is known as Inclusive growth. Similarly the equal distribution of financial services or give privilege to the underprivileged while providing financial services and credit facilities is known as financial inclusion. Thus the concept of financial inclusion and the concept of Inclusive growth are interlinked and affect each other. India's

poor is becoming poorer as well as the rich is becoming richer day by day. This trend is needed to be removed. Through the concept of financial inclusion the excluded segment of the society can be brought in the limelight and efforts can be done to uplift them and make their living standard better by facilitate them smooth financial accessibility. With this initiative excluded can be included in the framework which leads the nation's economy to the inclusive growth.

1.1. LITERATURE REVIEW

Mondal Sarojit (2015), in the research work, has focused on the relationship between financial inclusion and poverty. The study discloses that after the launching of financial inclusion concept formally in India in the year of 2005 the rate of poverty has been declined at three fold rate. **Rao, S.K. (2018)**, has explained that India is doing good in the area of financial inclusion but can do better by giving extra efforts. According to the researcher financial inclusion must be the part of education system from school level education to higher education. Further the researcher has displayed the progress of financial inclusion from 2010-2017 in the study. **Kelkar Vijay (2010)**, has explained in his study that financial inclusion is a quasi-public good because of the economy and community wide positive spillover effects of financial inclusion. **Fernandes Jacklin Everil and M.Amulya (2015)**, have defined the concept of financial inclusion in Indian context. Their study concludes that greater financial inclusion will promote micro venture capital funds. This would mobilize creativity from the segment of our society that remained completely untapped. **Agarwal. P (2018)**, has described current status of financial inclusion in India. The study concludes that more initiatives must be taken into consideration for those states, districts and areas which have low score in financial inclusion index. Further the study suggests that protection linked insurance schemes and pension schemes must be launched for more coverage. **Dhillon Kaur Lakhwinder and Mittal Nipun (2016)**, have concluded that financial inclusion plays the role of support system while stepping towards Inclusive growth. Their study also reveals the need of SHGs formation, digitalized banking sector and joint efforts of Indian government and financial institutions for quick financial inclusion. According to **A.A. Usha and Johnson B (2016)**, the banking sector all over the world is striving for financial stability and integrity. Their study also suggests that there is a need for financial sector to reach to the underprivileged. **Siddiqui, Ubaid, Anjum. (2018)**, in his study found that the execution of financial inclusion policy is uneven. His study suggests that all the issues related to financial inclusion should be traced and tackled in order to gain Inclusive growth. This study describes that financial inclusion will help the nation to keep away the rural poverty as well as the urban poverty. **Kumar, M. and Mishra, K. (2015)**, has concluded that unawareness about the financial services is the main reason of financial exclusion.

1.2.RESEARCH GAP

Many studies have been found by the researcher on the status of financial inclusion and financial inclusion initiatives in India. But no study could be found, discussing a particular district based initiatives which actually play small but significant role in the agenda of financial inclusion. This study will present a view on financial inclusion status and financial inclusion initiatives with special reference to Lucknow.

1.3.OBJECTIVES OF THE STUDY

Three main objectives have been covered by this study:

- To discuss the initiatives of financial inclusion in India and especially in Lucknow.
- To understand the financial inclusion status of Lucknow according to financial inclusion index.
- To find out the requirements for smooth financial inclusion and corrective measures for better and more efficient financial inclusion initiatives.

1.4.LIMITATIONS OF THE STUDY

This study has following limitation,

- This study is limited to a particular district of Uttar Pradesh, named Lucknow.
- Only those initiatives have been discussed, about which secondary data is available on internet.
- Seven year data has been taken from CRISIL Inclusix from 2009-2016.

1.5.RESEARCH METHODOLOGY

This is a descriptive type paper. Used source of data collection is secondary. Various government reports, research papers and research articles have been considered for collecting data. CRISIL Inclusix's data has been used to check the status of financial inclusion in Lucknow. Tables have been used to display these data. Official sites of various government and non-government institutions have been used to collect data of financial inclusion initiatives.

2.0. FINANCIAL INCLUSION IN INDIA

Financial Inclusion is an innovative concept to attain world class growth. As financial inclusion supports Inclusive growth, the government of India started various initiatives and schemes after Independence to extract exclusion and put Inclusion in financial framework. A formal framework for the concept of financial inclusion came in the year of 2005 but actually it is older than its structural framework. Some initiatives are as follows;

- Nationalization of Banks in 1969
- New Industrial Policy-1991 which introduced Liberalization policy
- Establishment of Regional Rural Banks in 1975
- Formation of Financial stability and Development Council (FSDC) in 2008
- Establishment of Financial Inclusion Advisory Committee (FIAC) in 2012
- RBI three year Financial Inclusion Plan (FIP) starting from April 2010 for 2010-2013, 2013-2016 and 2016-2019
- Number of branches opened in unbanked villages and in villages with population greater than or less than 2000
- Number of Business Correspondents outlets opened
- Number of Basic Savings Bank Deposit Accounts opened
- Number of emergency credit (OD) provided
- Number of Entrepreneurial credit (KCC/GCC) provided
- Incorporated Financial Inclusion Fund and Financial Inclusion Technology Fund.
- Transactions done in the above accounts through Brick & Mortar branches as well as through BCs
- Encouraged the Self Help Group-Bank Linkage Model, one of the largest micro finance models in the world, under which 4.79 million Self Help Groups have been credit linked, covering 97 million poor households (till March 2012).

- Mandated Commercial Banks including Regional Rural Banks to migrate to the Core Banking Platform.
- Substantially liberalized the Business Correspondents based service delivery model in phases.
- Permitted domestic scheduled commercial banks to freely open branches in Tier 2 to Tier 6 centers.
- Directed banks to open at least 25 percent of all new branches in unbanked rural centres.
- Substantially relaxed the Know Your Customer (KYC) documentation requirements for opening bank accounts for small customers.
- Promoted Electronic Benefit Transfer for routing social security payments through the banking channel.
- Pricing for banks totally freed; Interest rates on advances totally deregulated.
- Initiated Joint Liability Groups.
- Separate programme for Urban Financial Inclusion started.
- Opened Jan Dhan Accounts.
- Encouraged the use of ICT for digitalization of banking sector for speedy network and fast service.
- Waived of RTGS and NEFT charges to increase digital transactions.

2.1. FINANCIAL INCLUSION STATUS IN LUCKNOW

CRISIL Inclusix score for Lucknow district from year 2009-2016

2009	2010	2011	2013	2014	2015	2016
48.70	52.80	55.20	55.60	76.60	71.80	77.30

(Source- CRISIL Inclusix June 2013 & CRISIL Inclusic February 2018)

Above data is clearly presenting that Lucknow is doing good in the area of inclusive finance from year 2014. A clear and broad gap can be seen in the scores from previous four years to next three years.

CRISIL Inclusix rank for Lucknow district from year 2009-2016

2009	2010	2011	2013	2014	2015	2016
108	103	110	203	88	140	99

(Source- CRISIL Inclusix June 2013 & CRISIL Inclusic February 2018)

Clear variability can be seen in the ranks as per the above data of financial inclusion index.

CRISIL Inclusix ranks for four districts of Uttar Pradesh

	2013	2014	2015	2016
Lucknow	203	88	140	99
Kanpur	345	264	281	270
Allahabad	423	375	358	331
Agra	255	250	258	240

(Souce-CRISIL Inclusix February 2018)

In comparison with other big and some most populous cities of Uttar Pradesh, Lucknow is on better rank.

2.2. CRISIL INCLUSIX

Inclusix is a unique initiative by CRISIL launched by the former finance minister, Shri P. Chidambaram on June 25, 2013 with aim to measure India's progress on financial inclusion. A scale of 0-100 has been used for measurement. To assess CRISIL Inclusix score, four categories have been defined,

- If CRISIL Inclusix score is > 55 then the level of financial inclusion is considered 'High'.
- If CRISIL Inclusix score is between 40.1 and 55.0 then the level of financial inclusion is considered 'Above Average'.
- If CRISIL Inclusix score is between 25.0 and 40.0 then the level of financial inclusion is considered 'Below Average'.
- If CRISIL Inclusix score is < 25.0 then the level of financial inclusion is considered 'Low'.

To develop the index, parameters which have been taken into consideration are as follows,

- Bank Penetration
- Deposit Penetration
- Credit Penetration

Insurance penetration, a new parameter was introduced from 2016

2.3. FINANCIAL INCLUSION INITIATIVES IN LUCKNOW

Various initiatives and schemes have been launched by many government and non-government organizations for faster inclusion in financial sector. Some are as follows,

➤ C-PEC

C-PEC stands for Centre for Professional Excellence in Co-operatives is a training centre situated in Lucknow which was started in the year 2009. It is an initiative by Bankers Institute of Rural Development. The centre ensures sustainability of the Co-operative Reform Programme by providing training to the professional staff with the co-operatives.

➤ SCI-FI

SIDBI Center for Innovations in Financial Inclusion is an initiative for promoting financial inclusion by incubating Fintech startup. It is the result of joint efforts of SIDBI and IIM-Lucknow. The center was located in the campus of IIM Lucknow.

➤ Financial Inclusion and Development Department

Financial Inclusion and Development Department was set up in Lucknow by Reserve Bank of India for faster and barrier free inclusion. Department is headed by Shri R.P. Singh, General Manager of RBI.

➤ Establishment of Financial Literacy Centers

Aryavart Bank, established on 1st April 2019 is a Regional Rural Bank. Head office of this bank is in Lucknow. Ten financial literacy centres have been started in ten districts of Uttar Pradesh including Lucknow. Vijya Bank recently opened its first financial literacy centre at *Bakshi Ka Talab* in Lucknow.

➤ **Adoption of villages**

HBCL Co-operative Bank is a new generation co-operative bank situated in Lucknow. A village named, *Khatwara* in *Chinhat* was adopted by the bank for financial inclusion. It is an innovative way to ensure faster financial inclusion in rural areas.

➤ **Training Programme**

Bankers Institute of Rural Development launched a International Training Program on Self Help Group for women empowerment. To increase understanding of financial inclusion concept, this training program was conducted. Another International Training Programme on Embracing Digitalization for Finance and Governance was conducted by BIRD in Lucknow from 25-28 March 2019 to support digital financial inclusion.

➤ **FETP**

Financial education to people is an initiative started by National Centre for Financial Education. The main objective of this scheme is to provide personal financial education without any biasness to improve level of financial literacy as it will lead to barrier free financial inclusion. This initiative has two dimensions, one is education and other is awareness. The second program in this series was launched in Lucknow.

Hence it can be seen that above schemes and initiatives have been initiated for smooth and faster inclusion in the city.

2.4. IS FINANCIAL INCLUSION SIGNIFICANT?

Finance is a basic need for every economy to grow and develop. Financial Inclusion supports Inclusive growth in every manner. Inclusion in financial sector enables each segment of population to avail financial services easily and quickly at low cost which leads to Inclusive growth. Inclusion in financial sector plays a significant role to promote Inclusive growth as:

- Financial inclusion gives fair opportunities to access the finance
- It promotes the culture of saving.
- It provides efficient payment mechanism
- Financial inclusion promotes sustainable development in financial sector.
- It helps in economic gap reduction.
- It helps in extreme poverty reduction.
- Financial inclusion mainstreams the excluded.

Thus we can see that financial inclusion prepares the base for Inclusive growth for a nation. It promotes a steady, barrier free and smooth Inclusive growth.

2.5. PREREQUISITES

These elements are needed for smooth and hurdle free financial inclusion;

➤ **A well-functioning financial system-**

A barrier free and well-functioning financial system is essential for smooth financial inclusion as it will provide good opportunities to more individuals regarding financial service accessibility.

➤ **Wide area-**

A wide area of population should be served by financial system for smooth financial inclusion as if financial system provides opportunities to a limited segment of the population, the nation is likely to lose chances to grow.

➤ **Financial literacy-**

Financial literacy can be understood as the ability to understand the finance. Appropriate as well as enough knowledge and awareness about financial market and products is required.

➤ **Full support from banking sector-**

Financial institutions and banking sector plays very significant role in financial inclusion as these are the prominent sources of credit for the public.

➤ **Good faith between people and bank-**

Financial inclusion is correlates with banker-customer relationship. Good faith between both of them enhance their relationship and increase banking activities which leads a nation to smooth financial inclusion.

➤ **Good infrastructure and faster service-**

Although banking sector has started many schemes and programs for credit facilitation but delay in credit sanctioning and strict banking norms are significant drawbacks.

➤ **Fair and affordable products and services-**

Public should be encouraged to save, borrow and invest by providing the transparent system and affordable services.

➤ **Financial counseling-**

Every person doesn't have enough understanding in context of financial matters. Right financial counseling encourages rapid access to financial services at reasonable cost.

➤ **Tie up with educational institutions**

Educational institutions have been always proved a strong pillar of our economy. IIM Lucknow is playing significant role in financial inclusion initiatives. More collaborations must be initiated in order to ensure the significant contribution of educational institutions in global agenda of financial inclusion.

➤ **Adoption of villages**

A wide and fast coverage is possible especially in rural areas with this innovative initiative. More banks, government organizations and NGOs should be asked to adopt specific areas for financial inclusion.

➤ **Conferences and seminars**

To spread awareness about financial inclusion, financial inclusion initiatives and financial literacy among citizens, conferences and seminars must be organized periodically.

3.0. FINDINGS

After studying and analyzing the data findings of this study are as follows

- Financial inclusion index show that some big cities of Uttar Pradesh like- Allahabad, Kanpur and Agra have failed to secure CRISIL Inclusix rank under 100.
- A clear increase in CRISIL Inclusix score for Lucknow can be noticed from the year 2014.
- Last recorded score (77.30) and rank (99) of Lucknow in year 2016 shows that the city is at better position in comparison to other big cities.
- Clear ups and downs can be seen in the rank of the city from 2009 to 2016. It displays inconsistency in financial inclusion progress.
- Some important initiatives for faster financial inclusion are- C-PEC, SCI-FI, FETP, Establishment of Financial Literacy Centres and initiation of various Training Programme etc.
- Organizations which are actively functioning in Lucknow for financial inclusion are RBI, BIRD, IIM Lucknow, Aryavart Bank, HBCL Co-operative Bank, Vijya Bank, SIDBI etc.
- Current initiatives and efforts for financial inclusion are significant but not enough.

CONCLUSION

In comparison with other cities of Uttar Pradesh, Lucknow has better CRISIL Inclusix score. But rank of Lucknow in the financial inclusion index is unstable which is a matter of concern. For better and consistent rank, some corrective measures are required. Indian government is putting all the efforts to achieve the goal of financial inclusion as it can lead Indian economy to quick Inclusive growth. This study reveals that many schemes have been already initiated and some are in que. This study also concludes that the major goals and outcomes of financial inclusion are the key steps for Inclusive growth of a nation. After understanding the concept of financial inclusion this research also finds- a well-functioning financial system, serving wide area, financial literacy among people, full and effective support from banking sector, utmost good faith between banker and customer, good infrastructure and faster service, fair market and affordable financial products and services and availability of financial counseling as essential requirements and tools for smooth financial inclusion. Consumer protection and cyber security should be ensured for digitalized banking adoption. New and more SHGs formation, more tie ups with educational institutions and new, effective banking reforms are needed to confirm financial Inclusion rapidly. Many schemes have already initiated but still effective planning implementation should be made. To ensure financial inclusion which will lead

Indian economy to Inclusive growth it is necessary to connect low income groups to high quality financial services.

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