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ACCESS TO FINANCIAL SERVICES: AN OVERVIEW

Nagajyothi M J*
Assistant Professor & Head
Department of Economics
Government Arts College, Bangalore, Karnataka

Dr. Ravindra Kumar B*
Professor
Department of Studies & Research in Economics
Tumkur University, Tumkur

*Corresponding authors | Received: 02/07/2023 | Accepted: 22/08/2023 | Published: 30/09/2023

Abstract: *The issue of limited access to financial services is frequently criticised as a pervasive challenge in numerous developing nations. This study posits that a more comprehensive analysis of the "problem of access" can be achieved by delineating various restrictions on both demand and supply. The utilisation of the access possibilities frontier, which is depicted based on a specific set of state variables, allows us to differentiate between various scenarios in the financial system. These scenarios include instances where the financial system operates below the constrained optimum, situations where the constrained optimum is insufficient, and cases where the observed outcome in credit services is excessively high. There is a differentiation drawn between the services of payment and savings, fixed intermediation charges, lending services, and other forms of credit risk. The study comprehends the financial services concept in India, determine the type of financial services available in India, the governmental endeavours about financial services and examine the benefits of having access to financial services based on secondary sources of data collection.*

Keywords: Finance, Problem of access, Credit Risk

Introduction

The financial services sector makes a major contribution to the expansion of the country's economy. The financial system, on the one hand, and growth, investment, total factor productivity, poverty, and other related measures, on the other hand, have a strong and complex connection between them. Financial impact may be transferred through a number of channels. One of the only reliable determinants of a nation's eventual growth is its financial development. Beyond general economic expansion, finance also affects people's well-being. The field of finance can play a crucial role in facilitating the equitable distribution of income, managing and reducing risk, and broadening the range of investment opportunities available to individuals. Financial matters might be of utmost importance for economically disadvantaged individuals. A recent study suggests that the implementation of a more sophisticated financial system has the potential to mitigate poverty and reduce economic inequality.

Finance is crucial in facilitating economic growth by creating and consolidating capital, permitting more ventures with inherent risks. Additionally, finance aids in efficiently allocating resources to their most advantageous uses while monitoring capital utilisation. Furthermore, finance provides various tools and mechanisms to mitigate risks associated with economic activities. The growth of financial services is influenced more by the effectiveness of their delivery within an appropriate institutional and competitive framework rather than the specific delivery channels employed, such as banks or capital markets. As a consequence of this, it is a very difficult task to decide which of the many different financial systems are best suited to foster economic expansion and make it easier for everyone to gain access to financial services. The ability of individuals and organisations to receive a varied variety of financial goods and services that make it easier to manage funds, save money, and build wealth is what we mean when we talk about access to financial services. This could be relevant to a wide range of products and services, including bank accounts, credit cards, insurance policies, loans, and other financial instruments.

Financial services utilisation and financial access are two different things. A supply of financial services of an adequate level and at a reasonable price is referred to as accessibility. Financial services hold enormous promise for supplying low-income individuals in developing nations with a variety of accessible, affordable, and secure banking services.

Review of Literature

Claessens, S. (2006),'s article analyses the empirical evidence about the role of finance in determining economic well-being. This study aims to gather data on using essential financial services by people and businesses across different countries. It analyzes the feasibility and desirability of achieving universal access to these services. In addition to this, a full analysis of the macroeconomic, legal, and regulatory barriers that restrict access to financial services is included in the report. Even though there are a great number of benefits associated with finance, there is evidence to suggest that its application is restricted in a great number of countries, particularly those that are categorised as developing nations. The realisation of the goal of universal access to financial services has not yet been elevated to a prominent position on the public policy agendas of the vast majority of countries, and doing so would be fraught with a number of formidable obstacles. Countries have the ability to increase the availability of financial services by putting in place the necessary institutional infrastructure, liberalising their markets in order to foster an environment conducive to healthy competition, and encouraging the creative application of their existing knowledge and technological resources.

Ardic, Oya Pinar and et.all., (2011)'s empirical research suggests that the provision of fundamental financial services can have a notable and beneficial impact on the lives of impoverished people. Consequently, governments are increasingly prioritising implementing banking sector reforms to enhance financial inclusion. The Financial Access project was established through a collaboration between the Consultative Group to Assist the Poor and the World Bank Group in order to tackle the identified issue. This initiative encompasses a comprehensive database that spans many countries, focusing on various aspects of financial inclusion. An annual report has also been devised to facilitate informed policy discussions surrounding this matter. Based on the provided data, this research paper

1. Estimates the worldwide proportion of adults without access to banking services to be 56%,
2. Investigates the availability of deposit and loan facilities, as well as the scale of retail networks and
3. Evaluates the status of global requirements for financial inclusion.

According to a study conducted by ***Agarwal and Variyar (2017),*** it was found that the Finance Minister, Arun Jaitley, emphasised the promotion of digital payments in the Budget. He announced a mission to achieve a minimum of 2,500 crore cashless transactions in the fiscal year 2017-18. This would be facilitated using payment platforms such as the government's Unified Payments Interface (UPI) and Aadhaar Pay. The imminent rollout of a biometrics-based payments system would prompt banks to expedite the deployment of 2 million Aadhaar-linked payment terminals by September. Additionally, he has submitted a proposal for the potential implementation of a requirement to utilise digital methods for all government receipts, subject to a certain threshold. This idea is currently being deliberated.

Research Methodology

The current study is grounded in a descriptive research design. The secondary sources for this study include a range of materials such as books, journals, government websites, RBI websites, and Google Scholar.

Objectives of the Study

1. To comprehend the financial services concept in India
2. To determine the type of financial services available in India
3. Determine the governmental endeavours about financial services
4. To examine the benefits of having access to financial services

Conceptual Framework of Financial Services in India

The emergence of new market participants and the growth of well-established financial services companies are the primary forces driving India's extensive financial industry towards major development, primarily powered by the country's rising middle class. The term "financial services sector" refers to commercial banks, insurance firms, non-banking financial institutions, cooperatives, pension funds, mutual funds, and additional smaller financial organisations. The most recent banking regulation has allowed for the establishment of additional entities, one of which is the establishment of payment institutions; this has resulted in an expansion of the range of businesses currently functioning within the market. The commercial banking industry is the primary component of the banking sector of the Indian financial system. Commercial banks are responsible for more than 64 percentage points of the total assets.

The government of India has initiated a large number of initiatives with the goals of fostering, supervising, and accelerating the development of specific economic sectors. Because of a number of projects that have been carried out by the government of India in conjunction with the Reserve Bank of India (RBI), individuals in India now have easier access to a wider variety of financial resources. Micro, Small, and Medium-Sized Enterprises (MSMEs) are the name given to these types of programmes. The measures mentioned above include

- establishing a Credit Guarantee Fund Scheme for Micro, Small, and Medium Enterprises (MSMEs),
- establishing a Micro Units Development and Refinance Agency (MUDRA), and
- issuing directives to financial institutions regarding the requirements for collateral.

Because of the concerted efforts of both the public and private sectors, the Indian capital market currently displays a significant amount of activity levels.

Significant advancements in the financial services sector have been made recently:

- According to data from the Unified Payments Interface (UPI), the overall number of transactions in November 2022 amounted to 7.30 billion, with a cumulative value of Rs. 12.11 trillion (equivalent to US$ 148.63 billion).
- In October 2022, a total of 482.46 million transactions were conducted using the quick payment service (IMPS), amounting to Rs. 4.66 trillion (US$ 57.05 billion).
- In September 2021, a group of eight Indian banks announced their intention to introduce or are in the process of introducing a system called "Account Aggregator."

This system aims to facilitate clients in consolidating their financial data into a single unified platform.

Functions of Financial Services

1. Making it easier for people to trade (swap goods and services) in the economy.
2. Allocating savings (for which the outlets would be substantially more constrained otherwise).
3. Distributing capital amounts, particularly for financing profitable investments.
4. Supervising managers (to ensure that the funds granted are used as planned).
5. Reducing risk through aggregation and allowing it to be carried by those who are more inclined to do so.

Types of financial services in India

Financial services play a crucial role in facilitating the efficient functioning of the economy. People can utilise financial services to facilitate significant expenditures and allocate funds for future purposes. It enables the operation of unrestricted capital markets and facilitates the availability of market liquidity. When the industrial sector experiences robust growth, it contributes to the overall expansion of the economy and enhances the resilience of firms operating within this domain in managing risks. Moreover, it facilitates the implementation of a robust framework for effective financial planning.

- **Banking**

  India's financial services industry is built on several fundamental foundations, one of which is the country's banking system. The nation has many financial institutions, including public, private, international, regional, rural, and urban/rural cooperatives. The term "financial services" refers to a broad category encompassing various offerings, including business banking solutions, personal banking services, and loan facilities. The Reserve Bank of India (also known as the RBI) monitors and maintains the banking system's liquidity, capitalization, and monetary stability.

- **Mutual funds**

  Mutual fund providers furnish specialist investment advice for portfolios of diverse asset classes, often including instruments associated with equities and debt. The goods mentioned are highly favoured in India because of their inherent attributes, such as reduced risks, advantageous tax treatment, reliable returns, and the ability to enhance diversity. In recent years, there has been a notable increase in the assets under management within the mutual fund sector. This can be attributed to its widespread appeal as a reliable means of multiplying wealth with relatively little risk.

- **Insurance**

  Financial services of this nature are encompassed under the realm of personal finance. In the current market, two primary categories of financial services may be identified: general insurance and life insurance. Insurance solutions protect individuals and entities from accidents and unanticipated catastrophes. The payout levels for these products are based on a number of factors, including the product's characteristics, time horizons, client risk assessment, premiums, and a wide range of other significant qualitative and quantitative variables. The Insurance Regulatory and Development Authority of India (IRDAI) is in charge of ensuring that the insurance market in the country is appropriately regulated and that it continues to develop in a positive direction.

- **Stock Exchange**

  Investors utilising the National Stock Exchange and Bombay Stock Exchange in India are presented with various investment options relating to equities made available through the stock market segment. The returns consumers receive are contingent upon capital appreciation, which refers to the rise in value of the equity solution and dividends and payments disbursed by companies to their investors.

- **Wealth Management**

  The financial services provided in this market segment involve the administration and allocation of clients' assets across various financial instruments. The range of instruments in this category may consist of assets such as real estate, commodities, loans, stocks, mutual funds, insurance, derivatives, and structured products. The client's financial goals determine the choice of these instruments, willingness to take risks and investment timeframes. Individuals having a vested interest in financial matters should also acquaint themselves with the benefits linked with the practice of financial risk management.

Government Initiatives

- **Pradhan Mantri Jan Dhan Yojana (PMJDY):**

  The Honourable Prime Minister of India gave an address celebrating Independence Day on August 15, 2014, during which he officially designated the Pradhan Mantri Jan Dhan Yojana as the National Mission on Financial Inclusion. By ensuring that all households within the country have access to banking services consistently, the major goal of this initiative is to accomplish the total financial inclusion of those households. This provision enables individuals who do not possess a savings account to initiate one without being required to meet a minimum deposit requirement. Additionally, if these individuals declare that they do not possess the necessary legal papers to open a savings account, they can open a small-scale account. The Pradhan Mantri Jan Dhan Yojana (PMJDY) facilitates convenient access to banking services for persons who do not have access to traditional banking facilities. The deposit base of PMJDY accounts has witnessed a gradual increase over time. As of August 18, 2021, the deposit sum in PMJDY accounts amounts to Rs. 1,46,230.71 crore. From March 2015 to August 2021, there was a significant increase in the average deposit per account, which experienced a more than threefold rise, escalating from Rs. 1,064 to Rs. 3,397.

- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):**

  The PMJJBY is open to everyone with a bank account, the ability to enrol or authorise auto-debit, and an age range of 18 to 50. The Aadhar card is the essential Know Your Customer (KYC) document for opening a bank account. The life insurance policy worth 200,000 rupees is renewable and remains effective from June 1st until May 31st in the subsequent year. In the case of the demise of the insured individual, regardless of the cause, the risk coverage provided by this policy amounts to Rs. 2 lakhs. The annual premium amount is Rs. 436, and it will be withdrawn from the subscriber's bank account on or before May 31st of each coverage term, as per the subscriber's selected preference.

- **Pradhan Mantri Suraksha Bima Yojana:**

  The eligibility criteria for participation in the Scheme require people aged between 18 and 70 to possess a bank account and provide consent to enrol or activate auto-debit by May 31. This enrollment or activation must be completed to secure coverage for the period commencing on June 1 and concluding on May 31 of the following year. The coverage is subject to annual renewal. The Aadhar document is the basic Know Your Customer (KYC) requirement for opening a bank account. The plan offers a risk coverage of Rs. 2 lakhs for accidental death, Rs. 1 lakh for partial disability, and Rs. 2 lakhs for entire disability. The bank account of the account user will be charged a single payment for the yearly premium of Rs. 20 through the utilisation of the "auto-debit" functionality.

- **Pradhan Mantri Mudra Yojana:**

  The programme made its initial appearance on April 8, 2015. The Shishu sub-scheme offers loans up to Rs. 50,000; the Kishore sub-scheme offers loans ranging from Rs.

50,000 to Rs. 5.0 lakhs and the Tarun sub-scheme offers loans ranging from Rs. 5.0 lakhs to Rs. 10.0 lakhs. The provision of collateral is unnecessary for securing loans. By implementing these measures, persons who are young, educated, or possess exceptional abilities will experience heightened self-assurance and be empowered to pursue entrepreneurship by establishing small organisations or expanding the operations of their existing companies. As of August 20, 2021, 16.22 billion rupees were allocated for sanction, with 30.7 crore accounts holding these funds.

- **Stand Up India Scheme:**

  On April 5, 2016, the Indian government launched a new initiative called the Stand-Up India Scheme. The programme described above makes it possible for a minimum of one female borrower and one borrower from a Scheduled Caste or Scheduled Tribe to obtain bank loans in amounts ranging from ten thousand to one million rupees (Rs. 10–1,000,000) at each bank branch. These loans are being offered to facilitate the launch of brand-new businesses. This company could be engaged in manufacturing agricultural products, the supply of services, or the trading of goods. At least 250,000 debtors are expected to benefit from the effort, which all Scheduled Commercial Banks will carry out. The program is now running, and Scheduled Commercial Banks all over the country are helping to execute its execution by swiftly delivering loans to customers.

Financial Access Survey

The Financial Access Survey (FAS) is an initiative by the International Monetary Fund (IMF) that provides a comprehensive overview of financial access and usage around the world. This study collects information on various dimensions of financial inclusion, including the accessibility of financial services to individuals and enterprises and their use of these services.

Financial Access Report – INDIA:

	2017	**2018**	**2019**	**2020**	**2021**
Automated teller count per 100,000 adults	22.00	21.65	20.95	21.50	21.44
Number of branches of commercial banks per 100,000 adults	14.49	14.46	14.60	14.75	14.58
Commercial bank outstanding deposits as a percentage of GDP	62.79	60.50	64.24	70.85	66.40
Indebtedness of commercial institutions as a percentage of GDP	46.33	46.39	49.30	53.12	46.85
Outstanding commercial bank loans to small and medium-sized businesses (percentage of GDP)	6.26	6.08	6.54	7.14	6.28

The ratio of registered mobile money agent outlets to one thousand adults.	443.52	541.93	1264.79	1671.55	1938.90
The proportion of mobile money transactions to GDP in value during the reference year.	0.31	0.58	0.91	0.92	0.64

Source: Financial Access Survey Report 2022 (IMF)

Advantages of Access to Financial Services

Access to financial services offers numerous advantages to individuals, businesses, and economies as a whole.

1. **Financial Inclusion**: The provision of financial services, encompassing banking, credit, and insurance, facilitates the inclusion of persons previously marginalized from the established financial framework, enabling them to engage in economic endeavours, effectively handle their monetary affairs, and strategize for forthcoming circumstances.
2. **Savings and Investment**: Financial services provide a secure platform for people to save money and invest in various financial instruments, helping them build wealth over time and achieve their financial goals.
3. **Capital Formation**: Financial services enable businesses to access capital for growth and expansion, which can lead to job creation, increased productivity, and economic development.
4. **Risk Management**: Insurance services help individuals and businesses manage and mitigate risks, protecting them from unexpected events such as accidents, illnesses, or natural disasters.
5. **Access to Credit**: Availability of credit allows individuals and businesses to fund large purchases, invest in education, start or expand businesses, and smooth consumption during times of financial strain.
6. **Entrepreneurship and Innovation**: Access to financial services can foster entrepreneurship by providing entrepreneurs with the necessary funds to start and develop new ventures, driving innovation and economic growth.
7. **Poverty Reduction**: Financial inclusion has the potential to alleviate poverty by equipping individuals with the means to save, invest, and obtain credit, thereby enhancing their economic welfare and overall standard of living.
8. **Women's Empowerment**: Increased access to financial services for women can empower them economically, allowing them to participate more actively in the workforce, make financial decisions, and improve their socio-economic status.

9. **Digital Economy Participation**: As financial services increasingly shift to digital platforms, access to these services can enable individuals and businesses to participate in the digital economy, conduct online transactions, and benefit from e-commerce opportunities.
10. **Financial Literacy**: When individuals have access to financial services, they are frequently aided in making educated decisions regarding the management of their money, their budgeting, and their investments. This is because financial education and literacy programmes are typically bundled together with financial services in most cases.
11. **Government Benefits and Social Services**: Access to financial services can facilitate the distribution of government benefits and social services, ensuring that eligible individuals receive the support they need in a timely and efficient manner.
12. **Reduced Informal Economy**: Increased access to formal financial services can reduce reliance on informal financial channels, which often lack consumer protection measures and may be associated with higher risks.
13. **Data and Analytics**: Financial transactions generate data that can be analysed to gain insights into consumer behavior, economic trends, and market dynamics, which can inform policy decisions and business strategies.
14. **Stability and Resilience**: A well-functioning financial system contributes to overall economic stability and resilience, providing mechanisms for individuals and businesses to weather economic shocks and uncertainties.
15. **Global Economic Integration**: Access to international financial services can facilitate cross-border trade, investment, and remittances, contributing to global economic integration and cooperation.

Conclusion

The Financial Access Survey is a significant instrument for policymakers, researchers, and practitioners in evaluating the global status of financial inclusion and formulating efficacious approaches to augment the availability of financial services. The statement above enhances comprehension regarding the obstacles and possibilities associated with attaining more extensive financial inclusion. In conclusion, providing financial services plays a crucial role in facilitating economic development, alleviating poverty, empowering individuals and enterprises, and nurturing the overall welfare of society.

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