Financial Inclusion in India: Progress and Challenges

Dr. Moninder Kaur*, Dr. Supreet Kaur**

**Assistant Professor, SSSS College of Commerce for Women, Amritsar*

****Assistant Professor, PG Department of Economics, Khalsa College, Amritsar*

Abstract

Financial Inclusion has emerged as a tool for the socio-economic development of the society. It plays a vital role in the growth and development of an economy. In this context, the present paper examines the role of various types of banks in enhancing the extent of financial inclusion in India through various initiatives. The paper, further, analyzes the current status of financial inclusion and various problems encountered by banks while encouraging financial inclusion. In order to achieve this objective, secondary data were sourced from various annual reports of RBI, reports of Census of India 2001 & 2011 and other official web sites, etc. The study found that that inspite of various efforts by the banks; the real adoption of banking services, i.e., financial inclusion happens to be low. Moreover, in the process of financial inclusion, the major role has been played by public sector banks as compared to private sector banks. Further, state wise analysis of financial inclusion indicated the existence of regional imbalances of financial infrastructure. Thus, efforts need be made to enhance the financial literacy and awareness, which will have positive impact on the process of inclusive growth.

Keywords: Financial Inclusion, Financial Literacy, Commercial Banks, Prime Minister Jan Dhan Yojana.

JEL Classification: E58; G21; R51

Introduction

Finance is an essential component of the growth of an economy. Growth of financial system has close association with the growth of real sector and hence overall growth of an economy. Easy access to affordable credit and other financial services by the poor and vulnerable groups in

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underdeveloped areas is considered as a pre-requisite for accelerating growth and reducing income inequalities. Financial inclusion is the pursuit of making financial services accessible at affordable costs to all individuals and businesses, irrespective of net worth and size, respectively. It is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. According to Rangrajan Committee (Report of the committee on financial inclusion in India (2008), the financial inclusion is the process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups, at an affordable cost. In the provision of financial services, banking sector plays significant role in the growth of an economy. The success of financial inclusion programme primarily depends upon the growth of banking sector. Since banks are the gateway to the various basic banking services, so they can play a vital role in enhancing the extent of financial inclusion in India.

Review of Literature

Rao (2010) in his paper had substantiated that the act of nationalization of banks way back in 1969 has contributed towards achieving inclusive growth within the country. Further, He pointed out that, despite nationalization and massive branch expansion, the challenges of financial inclusion could not be fully met by the banking sector alone and there is need for identifying new channels to achieve full inclusive growth in the country. Swamy and Vijayalakshmi (2010) , in their article claimed that importance of financial inclusion arises from the problem of financial exclusion of nearly three billion people from the formal financial services across the world. Badajena and Gundimeda (2010) analysed the impact of self help group linkage programme in achieving financial inclusion across sixteen states for the period 2008. The researchers found out that in spite of the increased spread of formal banking network in the recent past, access to basic financial services are still beyond the reach of large sections of society. Raihanath and Pavithran (2014) examined the role of Commercial banks in the financial inclusion programme in India. Findings of the study indicated that Indian economy in general and banking services in particular have made rapid strides in the recent past. However, a sizeable section of the population, particularly the vulnerable groups, such as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services provided by the financial sector. Das and Choubey (2015) attempted to measure financial inclusion by considering demand and supply of financial services. The study found a dominant role of semi-formal organizations in rural areas of Assam, whereas the role of informal leaders are declining in rural Assam. Garg (2015) examined the role of banks in enhancing the extent of financial inclusion in India for the period 2001 to 2014. The author observed that inspite of various efforts by the banks; the real adoption of banking services, i.e., financial inclusion is very low. Laha (2015) ascertained the association between financial inclusion and human development in south asian countries for the period 2004-13. Findings from the study indicated that level of human development and that of financial inclusion are positively correlated in the sense that states having high level of human development are also the states with relatively high level of financial inclusion. Tewari (2015) explained the financial inclusion in India through the progress of *Pradhan Mantri Jan Dhan Yojna.* The author observed that expansion of bank branches, branchless banking, technology based products and increasing employees as the contributors of program's success. Mala and Vasanthi (2016) analysed that the initiatives taken by government of India have mixed impact on Indian economy as the performance is unsatisfactory on some financial parameters. For achieving the financial inclusion people need to have some basic financial literacy, financial skills, product knowledge and understanding.

Objectives of the Present Study

Specifically speaking, the study has following objectives:

1. To know about the various initiatives taken by banks to enhance the extent of financial inclusion in India.
2. To analyze the current status of financial inclusion in Indian economy.
3. To make a comparative study of progress of financial inclusion activities in rural and urban areas in India and also in different Indian states.
4. To examine the various problems encountered by banks while encouraging financial inclusion.

Database and Methodology:

In order to achieve the research objectives, the study is based on secondary source of data. The data has been collected from various issues of annual reports of RBI, Census of India 2001 & 2011 reports and various official web sites. With the help of this data, the role of banks in financial inclusion in India has been analyzed. Moreover comparative performance of progress of Financial Inclusion Plans in rural & urban areas, and also in different states of Indian Economy has been analysed.

Various Initiatives/Schemes introduced by Reserve Bank of India

RBI has taken several measures to achieve greater financial inclusion. Some of those initiatives have been mentioned below:

Opening of No-Frills Accounts: In November 2005, RBI advised banks to open 'no frill account' which requires very low or nil minimum balance with low maintenence charges so that these accounts can be accessible to vast sections of population. The overdraft facility was also provided on such accounts.

Simplification of Know-Your-Customer (KYC) Norms: RBI has simplified KYC norms. Moreover, Electronic KYC is possible only for those who have Aadhaar number. If anyone does not have any proof of identity, one can still open a bank account known as Small Account (having balance less than Rs 50,000) by submitting a recent photograph and putting one's signature or thumb impression.

Appointing Business Correspondents (BCs): The Reserve Bank permitted banks to utilise the services of intermediaries in providing banking services through the use of Business facilitators and Business Correspondents (BCs). The BC model allows banks to do 'cash in-cash out' transactions at a location much closer to the rural population, thus addressing the problems of last mile reach.

Electronic Benefit Transfer (EBT)Scheme: The process for EBT involves linking of all government benefits to Aadhaar-based identification of beneficiaries and to channelize the cash

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benefits through Aadhaar-enabled bank accounts. All social benefits like MGNREGA wages, pensions, LPG gas subsidy etc can be directly credited to bank account through EBT. The scheme has been launched in the country from January, 2013 and has been rolled out in a phased manner, starting with 26 welfare schemes, in 43 districts.

General Purpose Credit Cards(GCC): In order to provide easy credit facilities to the poor and disadvantaged people, banks were asked to introduce general purpose credit card facility up to Rs 25,000 at their rural and semi-urban branches. The main objective of the scheme is to provide hassle-free credit to the customers.

Branch Authorization Policy: To enhance the penetration in rural and semi urban areas RBI, in December 2009, allowed domestic scheduled commercial banks to freely open branches in tier 2 to tier 6 centres with a population of less than 50,000 under general permission, subject to reporting.

Pradhan Mantri Jan Dhan Yojana: To ensure 100 per cent financial inclusion in India, PMJDY scheme was launched by Prime Minister Narendra Modi in the year 2014. This scheme envisages universal access to banking facilities with atleast one basic bank account for every household alongwith insurance and overdraft facility.

Progress of Financial Inclusion in India

Financial Inclusion Plan

The RBI has encouraged the banks to implement a planned and structured Financial Inclusion Plan for the growth and development of the country. Two phases of the financial inclusion plans, i.e., Phase-I (2010-13) and Phase-II (2013-16) have already been completed. Considerable progress was made through these financial inclusion plans towards achieving universal financial inclusion. Currently, the third phase of FIP (2016-19) is being implemented under which granular monitoring is done at the district level to assess the progress in financial inclusion. FIPs have also been extended to cover the small finance banks and they have been advised to report on the progress made under various financial inclusion parameters as prescribed by the Reserve

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Bank. Table 1 indicates the progress under financial Inclusion Plans in India during three different time periods i.e., March 2010, March 2016 and March 2017.

A perusal at Table 1 indicates that banking outlets in villages have increased to nearly 5,98, 093 in March 2017 from 67,694 outlets in March 2010. Banking outlets through Business Correspondents has been also increased from 34,316 in March 2010 to 5,47,233 in March 2017 and other modes of banking outlets in villages has increased rapidly from March 2010 to march 2017. The number of Basic Saving Bank Deposit Accounts (BSBD) opened have been increased from 60 million in March 2010 to 254 million in March 2017 through bank branches and BSBD accounts which opened through Business Correspondents have increased from 13 million in

Table 1: Progress under financial Inclusion Plans in India: (All Scheduled Commercial Banks including RRBs)

Sr.No	Particulars	March -2010	March-2016	March-2017
1.	Banking Outlets in Villages- Branches	33,378	51,830	50,860
2.	Banking Outlets in Villages –Branchless mode	34,316	534,477	547,233
3.	Banking Outlets in Villages-Total	67,694	586,307	598,093
4.	Urban Locations covered through Business Correspondents	447	102,552	105,402
5.	Basic Saving Bank Deposit Account(BSBDA) through branches (No. in million)	60.2	238	254
6.	Basic Saving Bank Deposit Account (BSBDA) through branches(Amt in Rs. Billion)	44.3	474	691
7.	Basic Saving Bank Deposit Account (BSBDA) through BCs (No. in million)	13.3	231	280
8.	Basic Saving Bank Deposit Account (BSBDA)through BCs (Amt. in Rs. billion)	10.7	164	285
9.	Basic Saving Bank Deposit Account Total(in million)	73.5	469	533
10.	Basic Saving Bank Deposit Account Total (Amt.in Rs billion)	55.0	638	977
11.	Overdraft facility availed in Basic Saving Bank Deposit Account(No. in million)	0.2	9	9
12.	Overdraft facility availed in Basic Saving Bank Deposit Account(Amt. in Rs billion)	0.1	29	17

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13.	Kisan Credit Cards- Total (No in million)	24.3	47	46
14.	Kisan Credit Cards -Total (Amt in Rs billion)	1,240.1	5,131	5,805
15.	General Credit Cards- Total (No in million)	1.4	11	13
16.	General Credit Cards - Total (Amt. in Rs billion)	35.1	1,493	2,117
17.	ICT A/Cs- BC Total Transactions (No. in million) during the year	26.5	827	1,159
18.	ICT A/Cs- BC Total Transactions (Amt in Rs billion) during the year	7	1,687	2,652

Source: RBI Annual Report (2016-17)

March 2010 to 280 million in March 2017. Further, the share of ICT-based accounts has increased substantially. The number of ICT based transactions in year of 2010 was 26.5 million and raised to 1,159 million in 2017 and amount of these transactions in same year happened to be rs 2,652 billions .The number of transactions through ICT-based BC outlets, though have been increasing, but still very low when compared with the manifold increase in the number of banking outlets and the number of accounts. The focus of monitoring has been now more on the usage of these accounts, which is to be monitored through the number and value of transactions in Basic Saving Bank Deposit Accounts (BSBDAs) and on the credit disbursed through ICT-based BC outlets.

Percentage Share of ATMs in Rural and Urban Areas in India

Table 2 indicates the percentage Share of ATMs in Rural, semi-urban, metropolitan and Urban Areas in India. Over the years, the spread of ATMs has played an important role in enhancing access to banking services. It is evident from the Table-2, that the majority share of ATMs by public sector banks has been in semi-urban and urban areas, followed by metropolitans. Urban areas occupies 28.9 percent share of total ATMs opened by public sector banks, while rural areas occupies 19.7 percent. Similarly, majority of ATMs opened by private sector banks and foreign banks happened to be in urban and metropolitan cities. The share of ATMs in rural areas has been the least during March 2017. Moreover, it can also be observed that in contrast to ATMs, opened by Public Sector Banks were relatively equally distributed in rural and urban areas, while ATMs of Private sector banks and Foreign Banks were mainly concentrated in urban and metropolitan centres.

Table 2: Percentage share of ATMs of SCBs at various centres (as on March 2017)

Bank Group	Rural	Semi-Urban	Urban	Metropolitan	Total
Public Sector banks	19.7	28.3	28.9	23.1	100.00
Private Sector Banks	8.4	23.6	26.2	41.8	100.00
Foreign Banks	1.6	1.8	18.9	77.7	100.00
Total	16.4	26.8	28.1	28.7	100.00

Source: RBI Annual Report, 2016-17

Progress of Financial Literacy Centres (FLCs) in India

The Reserve Bank of India's financial literacy efforts have been channelised through banks in the form of a Mass Scale Literacy Campaign which includes conducting financial literacy camps in unbanked locations in order to aware the people about various initiatives introduced by the banks from time to time. For this purpose, all the financial literacy centres (FLCs) and rural branches of Scheduled commercial banks are advised to undertake financial literacy activities in the form of awareness camps at least once a month. It can be depicted from the table-3, that there were 1,376 FLCs operational in the country at the end March 2017. During the year ended March 2017, 96,315 financial literacy activities were conducted by the FLCs as against 87,710 activities during the preceding year. These FLCs are creating awareness about banking products and services through indoor and outdoor activities.

Table 3: Activities undertaken by Financial Literacy Centres

Particulars	March 2014	March 2015	March 2016	March2017
Number of Operational FLCs	942	1,181	1,384	1376
Number of activities conducted *	56,985	84,089	87,710	96,315

Note: *indicates both outdoor and indoor activities. However, indoor activities have been discontinued with effect from April 2014.

Source: RBI Annual Report, (Various Issues)

Evaluating Pradhan Mantri Jan Dhan Yojana (PMJDY) in India

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is a National Mission for Financial Inclusion to ensure access to financial services in an affordable manner. It particularly focuses on empowering the weaker sections of society, both in rural and urban areas. As on October 2014, under this yojana, 6.68 crores accounts have been opened (Table 4 (a)). Out of this, 80.8 percent have been opened by Public Sector Banks, 16.5 percent by Regional Rural Banks and remaining by 2.7 percent by private sector banks. Further, it has been observed that 59.02 percent new accounts have been opened in rural areas and 40.98 percent in urban areas. Out of total newly opened bank accounts in rural areas, 74 percent have been opened by public sector banks, 23.8 percent by RRB's and 2.3 percent by private sector banks. Further, out of total urban bank accounts, 90.6 percent have been opened by public sector banks, 6 percent by RRB's and 3.4 percent by private sector banks.

Table 4 (a): Share of PSBs, RRBs and Private Banks in Bank Accounts opened under PMJDY (As on 28/10/2014)

Financial Institution	No. of opened Accounts (in Lacs)			Share of PSBs, RRBs and PBs in Total Opened Bank Account (%)		
	Rural	Urban	Total	Rural	Urban	Total
Public Sector Banks	291.64	248.09	539.73	74.0	90.6	80.8
Regional Rural Banks	93.66	16.46	110.12	23.8	6.0	16.5
Private Banks	8.96	9.24	18.20	2.3	3.4	2.7
Total	394.26	273.79	668.05	59.02	40.98	100

Source: www.pmjdy.gov.in; authors calculations

Table 4(b) : Share of PSBs, RRBs and Private Banks in Bank Accounts opened under PMJDY (As on 19/4/2017)

Financial Institution	No. of opened Accounts (in crores)			Share of PSBs, RRBs and PBs in Total Opened Bank Account (%)		
	Rural	Urban	Total	Rural	Urban	Total
Public Sector Banks	12.45	10.36	22.80	73.36	90.8	80.34
Regional Rural Banks	3.97	0.69	4.65	23.39	6.05	16.38
Private Banks	0.56	0.37	0.93	3.3	3.24	3.28
Total	16.97	11.41	28.38	60	40	100

Source: www.pmjdy.gov.in; authors calculations

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As on April 2017, the number of total accounts opened under PMJDY increased to 28.38 crores (Table 4 (b)). Out of this, 80.34 percent have been opened by Public Sector Banks, 16.38 percent by Regional Rural Banks and remaining by 3.28 percent by private sector banks. Further, it has been observed that 60 percent new accounts were opened in rural areas and 40 percent in urban areas. Out of total newly opened bank accounts in rural areas, 74 percent have been opened by public sector banks, 23.8 percent by RRB's and 3.3 percent by private sector banks. Further, out

Table 5: State/UT wise Number of PMJDY accounts opened as on 06.12.2017

S.No	State Name	Number of PMJDY accounts opened as on 06.12.2017			Share in Total Account Opened (%)		
		Rural	Urban	Total	Rural	Urban	Total
1	Andaman & Nicobar islands	36853	14581	51434	0.02	0.01	0.015
2	Andhra Pradesh	4437311	4536119	8973430	2.46	3.58	2.92
3	Arunachal Pradesh	150536	102830	253366	0.08	0.08	0.08
4	Assam	9486483	3033857	12520340	5.26	2.4	4.08
5	Bihar	20174916	12173763	32348679	11.18	9.61	10.53
6	Chandigarh	38085	206473	244558	0.02	0.16	0.08
7	Chhattisgarh	8221389	4603014	12824403	4.56	3.64	4.18
8	Dadra & Nagar Haveli	74300	13618	87918	0.04	0.01	0.03
9	Daman & Diu	20443	20654	41097	0.01	0.02	0.01
10	Delhi	470489	3463299	3933788	0.26	2.74	1.28
11	Goa	107512	42802	150314	0.06	0.03	0.05
12	Gujarat	6048591	5548967	11597558	3.35	4.38	3.78
13	Haryana	3404165	3031380	6435545	1.89	2.39	2.1
14	Himachal Pradesh	848820	127351	976171	0.47	0.1	0.32
15	Jammu & Kashmir	1673959	264985	1938944	0.93	0.21	0.63
16	Jharkhand	7832980	3095969	10928949	4.34	2.45	3.56
17	Karnataka	6534781	5022652	11557433	3.62	3.97	3.76
18	Kerala	1536024	1944817	3480841	0.85	1.54	1.13
19	Lakshadweep	4520	642	5162	0.003	0.001	0.002
20	Madhya Pradesh	12804614	13841605	26646219	7.09	10.93	8.68
21	Maharashtra	10415718	11270381	21686099	5.77	8.9	7.06
22	Manipur	355535	423036	778571	0.2	0.33	0.25
23	Meghalaya	346429	66601	413030	0.19	0.05	0.13
24	Mizoram	98146	166569	264715	0.05	0.13	0.09
25	Nagaland	101236	115266	216502	0.06	0.09	0.07

26	**Odisha**	8819012	3341299	12160311	4.89	2.64	3.96
27	**Puducherry**	68970	90485	159455	0.04	0.07	0.05
28	**Punjab**	3380992	2629442	6010434	1.87	2.08	1.96
29	**Rajasthan**	14332237	9565442	23897679	7.94	7.55	7.78
30	**Sikkim**	73412	20960	94372	0.04	0.02	0.03
31	**Tamil Nadu**	4075561	4822010	8897571	2.26	3.81	2.9
32	**Telangana**	4577150	4368329	8945479	2.54	3.45	2.91
33	**Tripura**	580715	230766	811481	0.32	0.18	0.26
34	**Uttar Pradesh**	27730246	18533375	46263621	15.36	14.64	15.06
35	**Uttarakhand**	1332547	794666	2127213	0.74	0.63	0.69
36	**West Bengal**	20296556	9091734	29388290	11.25	7.18	9.57
Total		180491233	126619739	307110972	100	100	100

Source: www.pmjdy.gov.in; authors calculations

of total urban bank accounts, 90.6 percent have been opened by public sector banks, 6 percent by Regional Rural Banks and 3.24 percent by private sector banks.

Analysis of Statewise Coverage of Prime Minister Jan Dhan Yojana in India

State/UT-wise number of PMJDY accounts is annexed at Table 5. From the table, it is evident that during 2017, total 30.71 crore accounts were opened under Pradhan Mantri Jan Dhan Yojana (PMJDY), of which 18.05 crore accounts were opened in rural/semi-urban areas. Further, the highest number of accounts have been opened in Uttar Pradesh (equaling 15.06 percent), followed by Bihar, West Bengal, Madhya Pradesh and Maharashtra. Among other states and UTs, most backward and less economically powerful like Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttrakhand, Arunachal Pradesh and Goa have share in PMJDY accounts less than 1 percent. As far as Punjab state is concerned, its share in total bank accounts opened is just 1.96 percent.

Table 6: Share of PSBs, RRBs and Private Banks in Deposit Mobilisation

Financial Institution	Balance in Accounts (in Crores) As on 28/10/2014	Percentage Share in Deposit Mobilisation	Balance in Accounts (in Crores) As on 10/10/2018	Percentage Share in Deposit Mobilisation
Public Sector Banks	4163.98	83.7	66811.94	77.54
Regional Rural Banks	549.31	11.0	17136.94	19.89
Private Banks	263.06	5.3	2214.90	2.57
Total	4976.35	100	86163.79	100

Source: www.pmjdy.gov.in; authors calculations

The above table shows that during 2014, 83.7 percent of total deposit were in public sector banks, while 11 percent deposits were in regional rural banks. But, during 2017, the share of public sector banks in deposit mobilisation decreased to 77.54 percent, while share of regional rural banks have increased to 19.89 percent. On the other hand, the share of private sector banks, which was just 5.3 percent during 2014 decreased to 2.57 percent. Thus in case of opening of accounts and deposit mobilization, private sector banks have been lagging behind the public sector banks.

Challenges/ Issues in the Progress of Financial Inclusion Plans

It has been generally accepted by financial experts that by giving people easy access to banking facilities, economic welfare of the society can be uplifted. Reserve Bank of India (RBI) and government has played an important role in promoting financial inclusion for economic growth through increase in the banking penetration, installation of new ATMs and implementation of various schemes in the country. The Reserve Bank has used Financial Inclusion Plans to gauge the performance of banks under their financial inclusion initiatives. Despite various concerted efforts are being made to bring basic financial services to these unbanked individuals, banks are faced with several hurdles to which they must first overcome for their goals of financial inclusion to be successful. The various challenges/problems in achieving financial inclusion are discussed below:

Financial Illiteracy: It is one of the most important challenge in the area of financial inclusion. It has been found that the lack of awareness among the people, prevents them from utilizing the right products and services that suited their particular needs. By improving the financial literacy rate among these individuals, this will lead to better financial decisions and the selection of the right products. Moreover, mass financial literacy and awareness programmes or workshops among the weaker sections of society are extremely indispensable to achieve financial inclusion.

High Operational Costs: The banks have been facing high working cost in the provision of the financial services in the remote/backward areas, which is creating hurdles in successful implementation of Financial Inclusion Plans.

Lack of Formal Identification Documents: Another challenge in the area of financial education is that access to formal financial services requires various documents of proof regarding person`s identity, income, birth certificates etc. But poor people in remote areas, generally lack these documents and thus are deprived of these services.

Language problem: Due to difficulty in understanding formal languages, various documents and many formalities in banking procedure, people are not comfortable in using financial services.

Lack of Access: Most of the people living in remote areas, find it difficult to reach the areas where banks are situated, which refrain them for going to banks. Hence in such a situation they have to rely on money lenders for availing finance.

Lack of Information and Awareness: Many people who lack knowledge about the role and function of banks, importance of financial services like insurance, finance, cheque facilities, refraining themselves from including into the mainstream banking. This has also been the challenge for banks in the implementation of financial inclusion

Technology Barriers: Technology can be a very valuable tool in providing access to banking products in remote areas. No doubt the there has been growth in the ATM network in rural areas, but ATMs still are not considered user friendly by the people who are illiterate and non user of technology.

Thus, there exists various issues, which have been creating hurdles in the successful implementation of financial inclusion in India. These issues needs be addressed effectively so that each and every section of the economy can have easy access on financial services.

Conclusion and Policy Implications

The present paper studies the role of banks in enhancing the extent of financial inclusion through various initiatives and also analyzes the current status of financial inclusion and various problems encountered by banks while encouraging financial inclusion On the basis of analysis, it has been observed that the for the progress of financial inclusion, the major role has been played by public sector banks. Private sector banks and foreign banks have been lagging behind in terms of number of accounts opened, opening of ATMs and in terms of deposit mobilization.

Moreover, ATMs, opened by Public Sector Banks were relatively equally distributed in rural and urban areas, while ATMs of Private sector banks and Foreign Banks were mainly concentrated in urban and metropolitan cities. Further, it can also be concluded that despite various concerted efforts are being made to bring basic financial services to these unbanked individuals and remote areas, banks are faced with several hurdles to which they must first overcome for their goals of financial inclusion to be successful. In order to achieve inclusive growth, collaborative effort from all stakeholders are required to facilitate access to bank accounts among the financially excluded.

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