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Present Status of Financial Inclusion and Financial Literacy: A Revisit

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Abstract

A new paradigm for economic growth is financial inclusion, particularly in emerging markets like India. It serves as a crucial indicator of a nation's and economy's overall development. The ability to navigate the financial world, make wise financial decisions, and reduce the likelihood of being deceived about money all result from having financial literacy abilities. The purpose of this paper is to explore the concept and current scenario of Financial Inclusion and Financial Literacy. The study collected secondary data from diverse sources both online& offline, which encompassed online publications, websites, newspapers, and various other resources. The study's findings show that financial inclusion and financial literacy are on the rise, which will further aid in achieving social inclusion.

Keywords: Financial Literacy, Financial Inclusion, Financial Exclusion, Financial Behaviour, Social Inclusion

Introduction

Financial inclusion (FI) involves ensuring that individuals, households, and businesses within a community possess sufficient access to formal financial services and products such as transactions, credit facilities, payment options, savings opportunities, and insurance, all delivered in a sustainable fashion(Singh & Singh Kondan, 2011). The importance of financial inclusion in monetary policy has increased during the past few years. Several global conferences, including the United Nations-sponsored event in 2019, emphasized the significance of assuring an adequate degree of financial inclusion in the least developed nations. This is crucial because without it, individuals and enterprises are unable to actively engage in their country's economy to its full extent.An increasing body of studies indicates that inclusive financial systems have the potential to reduce poverty and inequality by empowering individuals and households to manage their finances, access bank loans, and obtain insurance (Mader, 2018). Furthermore, financial inclusion fosters the emergence of innovative businesses and the expansion of existing ones, leading to job creation and the enhancement of national savings (Ajide, 2020).

Numerous studies have indicated that the main obstacles to gaining access to formal financial services are a lack of awareness about financial services&poverty. Drawing from the S&P global financial literature survey, Grohmann et al. (2018) determined that financial literacy plays a crucial role in advancing financial inclusion. Financial literacy is the ability to manage financial resources by having a working knowledge of basic financial concepts (Lusardi et al., 2017; Huston, 2010). The development of skills necessary for financial efficiency is aided by financial literacyHowever, financial expertise and knowledge will contribute not just to the “capacity to take action” but also to the “chance to take action”(Huang et al., 2013). Examining the connection between financial inclusion and financial literacy is necessary. Financial inclusion and saving are both positively correlated with financial literacy, according to Morgan & Trinh's (2019) findings. Enhanced financial literacy has shown a positive association with increased engagement in financial markets and a higher utilization of formal borrowing channels, higher voluntary saving (Landerretche & Martnez, 2013), and better financial diversification (Beckmann, 2013), according to studies conducted in developing nations as well. Research focused on emerging economies indicates that there is a positive correlation between financial literacy and the ownership of bank accounts and insurance policies, as summarized by (Xu & Zia, 2012).

In this study conceptual base for financial inclusion and financial literacy is discussed which will further help in understanding the current scenario of both at present.

Objective of the study

- To explore the concept and current scenario of financial inclusion and Financial Literacy.

Research Methodology

This research is characterized by its descriptive approach and relies on secondary data for support.This study is a descriptive study that is based on secondary data. An effort is being made to research the current situation and examine concepts. Secondary data have been used from a variety of online and offline sources, including online journals, websites, newspapers, etc.

Discussion& Conclusion

Financial Inclusion (Supply-Side)

Financial inclusion works from the supply-side, enabling the financial market and offering the financial goods and services that people need. Financial inclusion places more of an emphasis on creating a financial market with sufficient reach and coverage to meet the essential needs of a population group that is impoverished, as well as designing and developing appropriate products and services.

Financial Literacy (Demand Side)

By educating the public about what they can demand, financial literacy increases demand. An individual can recognize financial principles and make decisions based on them with the help of a set of skills and knowledge. Financial literacy is related to having a fundamental awareness of money matters, being able to comprehend the main financial products, and being able to make wise financial decisions. Lacking financial competence can detrimentally affect an individual's financial health as it may lead to deliberate financial exclusion, ineffective financial management stemming from unsuitable financial choices, inadequate retirement planning, unwise investment decisions, potential mis-acquisition of financial products, and unfavourable borrowing practices.

Dimensions of Financial Inclusion

- **Access:**Access is the capacity to make use of the official financial system's offered financial products & services. To gauge the extent of accessibility, it's essential to possess awareness and conduct a comprehensive evaluation of possible hindrances when it comes to establishing and utilizing a bank account for various purposes, including factors like expenses and proximity to various banking facilities like branches, ATMs, business correspondents (BCs), and business facilitators (BFs).By calculating the percentage of the population who have bank accounts and totaling up all the accounts held by financial institutions, one can determine the fundamental representation of access.

- **Quality:**It has to do with how well financial goods and services meet customer needs. Consumer attitudes, experiences, and opinions about the goods and services being provided to them make up quality. To evaluate the service quality, one must examine the type and strength of the connection between the service provider and the customer. Additionally, it's crucial to assess the choices available to the customer, their awareness of these choices, and the resulting implications.
- **Usage:**Usage focuses more on the performance and breadth of the products or services used than it does on the basic acceptance of formal financial services. As a result, pinpointing usage calls for more information on consistency, frequency, and length of use over time. Data from demand-side surveys, which provide information from the user's perspective, are necessary to measure usage.
- **Impact:**Identifying changes in consumer behavior that are associated with the use of financial products or services.

Overview Of Financial Inclusion & Financial Literacy - Global Perspectives

Financial inclusion is now understood to contribute to both economic growth and the alleviation of poverty by enabling households and businesses to plan for daily expenses, long-term objectives, and unforeseen financial emergencies. The usage of various financial services such as savings, credit, insurance, business beginning and expansion, investments in health & education, risk management, and financial emergencies is more prevalent among bank account holders and can all improve their overall quality of life. Financial inclusion has been emphasized as a top priority development issue by several nations' economies during the last few decades.The World Bank Group put forth the idea of universal access to basic financial services as an initial but important step toward financial inclusion in 2013 (World Bank, 2013). Financial inclusion is the idea that everyone has access to formal financial services, which increases possibilities and reduces vulnerability. The Global Financial Inclusion (Global Findex) database was established by the World Bank's Development Research Group to address the need for up-to-date information to support the global financial inclusion initiative.This database provides a thorough, multifaceted assessment of where we are today and how far we have come toward ensuring that everyone has access to the fundamental financial services they need to invest in their futures and protect themselves from difficulties.A new set of indicators with in-depth knowledge about how adults in 140 economies access accounts, make payments, save money, borrow money, and manage risk were analyzed, according to "The Global Findex Database 2017". As per the survey conducted by(Demirguc-Kunt et al., 2018), more than 1.7 billion adults across the globe lack either a bank account or the ability to use mobile money services. All of the unbanked adults live in emerging nations because account ownership is almost exclusively concentrated in high-income economies.Most of these individuals are concentrated in merely seven developing nations, namely China (13%), Bangladesh (3%), India (11%), Pakistan (6%), Indonesia (6%), Nigeria (4%) and Mexico (3%).Worldwide, women make up around 56% of adults without bank accounts. The poor make up about half of the unbanked adults in the globe, and they come from the 40% of households in each nation with the lowest incomes.Interestingly, in India and Mexico, more than half of unbanked adults own mobile phones, whereas in China, 82% have.

Unbanked global adults typically have poor education, particularly in developing nations where half of unbanked adults have only a primary school or less, raising concerns about financial literacy. As a result, financial exclusion is a global issue, not just a problem in India. In terms of global financial literacy, the S&P Global FinLit Survey was conducted to measure an individual's literacy based on the four fundamental concepts for financial decision-making covering numeracy, interest compounding, inflation, and risk diversification, and revealed that 33% of adults worldwide are financially literate, while nearly 3.5 billion adults lack basic financial concepts, the majority of whom live in developing economies (Klapper, Lusardi & Oudheusden, 2015). The survey also revealed that Australia, the United Kingdom, Norway,Canada, Denmark,Netherlands, Finland, Germany, Sweden, Israel, & the United States, etc. have 65% or more adults who are financially literate, which is considered a very high level of financial literacy when compared to all other developing economies - the so-called BRICS (Brazil, the Russian Federation, India, China, and South Africa), where 28 percent adults are financially literate. Thus, based on the evidence presented above, it can be concluded that financial literacy plays an important part in the development of economies.

Financial Inclusion Approach in India

Depending on the factors, different countries take different approaches to financial inclusion. In India, a bank-driven strategy for financial inclusion has been adopted, aiming to introduce a comprehensive array of savings, payment, and credit-related products (Chakrabarty, 2012). According to Chakrabarty (2012), traditional banking institutions in India are recognized as capable of providing the complete set of products needed to achieve effective and meaningful financial inclusion. In this approach, other intermediaries and technology partners are allowed to collaborate with banks in delivering these products and services. However, institutions such as Micro Finance Institutions (MFIs), Non-Banking Financial Companies (NBFCs), and Non-Governmental Organizations (NGOs) are unable to achieve financial inclusion individually because they cannot independently offer the full range of financial products and services required to meet the minimum standards for financial inclusion.

Evolution of Financial Inclusion & Financial Literacy in India

India, like other developing countries, has already begun to take steps toward financial inclusion. Over several decades, the Indian government and the Reserve Bank of India have worked to achieve financial inclusion. The concept of financial inclusion first emerged with the establishment of the co-operative movement in 1904.To date, numerous institutions have been established to facilitate credit access and provide direct financial assistance to those in need and living in poverty. Noteworthy examples include the establishment of the State Bank of India in 1955, the nationalization of commercial banks in 1969 and 1980, the introduction of the Lead Bank Scheme in 1969, the creation of Co-operative and Regional Rural Banks (RRBs) in 1976, the establishment of the National Bank for Agriculture and Rural Development (NABARD) in 1982, the implementation of the Service Area Approach for lending in 1988, the initiation of NABARD's Self-Help Group (SHG)-Bank Linkage Program in 1992, the introduction of Local Area Banks in 1996, policy initiatives for Business Correspondents (BCs) and Business Facilitators (BFs), and the introduction of Microfinance Institutions (MFIs). Setting priorities for lending to the priority sector has also been a characteristic of policy interventions aimed at achieving financial inclusion. The process of achieving financial inclusion in India can be broadly categorized into three stages, as outlined by Kothandaraman in 2012(Kothandaraman, 2012).

Progress Towards Financial Inclusion

Holistic financial inclusion policies and initiatives contribute to economic growth, poverty reduction, and the mitigation of income inequalities, while also fostering financial stability. As per the 2017 IMF Financial Access Survey, the efforts undertaken by the Reserve Bank of India (RBI) and the government to advance financial inclusion are yielding positive outcomes.The number of bank branches per 1 lakh adults in 2019 increased from 13.6 in 2015 to 14.6 in 2019, surpassing Germany, China, and South Africa (IMF, 2020). With a major push to increase bank accounts among unbanked people via PMJDY, the number of deposit accounts at banks has increased dramatically in emerging peer economies and even a few advanced countries.Remarkable improvement has also been observed in the use of digital payment, with several government initiatives and promotion of the use of digital payment mediums. Over the span of six years since its establishment, the Pradhan Mantri Jan Dhan Yojana (PMJDY) has seen a total of 41.4 crore accounts being opened, accompanied by deposits amounting to Rs 1.30 lakh crore as of December 2020, as per data from the Reserve Bank of India in 2020.Almost two-thirds of these accounts are in rural or semi-urban areas. Over 60% of these accounts are linked to public sector banks. Nonetheless, utilization of these accounts remained a source of worry, with the average balance growing at a slow pace.

The National Strategy for Financial Inclusion (NSFI) introduced in 2019-20 has outlined several significant plans and actions to be undertaken during its implementation period. This includes two key recommendations pertaining to enhancing financial literacy (the development of specific financial literacy modules for targeted groups) and strengthening consumer protection (the establishment of a robust customer grievance portal), as reported by the Reserve Bank of India (RBI) in 2021.As per information from the National Centre for Financial Education (NCFE), comprehensive modules in various formats such as audio-visual content and booklets have been prepared for the specified target categories. Additionally, the Complaint Management System (CMS) established by the RBI functions as a public electronic platform designed for the lodging, tracking, and monitoring of complaint resolution status, ensuring an effective grievance redressal system.Moreover, the RBI has introduced an Online Dispute Resolution (ODR) system to efficiently manage customer complaints and grievances related to digital payment services.

Progress Towards Financial Literacy

One of the primary goals of the NSFE: 2020-25 is the development of financial literacy curriculum. As of March 2021, 13 state educational boards had already incorporated the specified financial education components into their school curricula. NCFE is currently in talks with NCERT to integrate financial education into the school syllabus for students in grades 6 to 10.NCERT is also creating financial literacy e-learning resources, and NCFE is assisting with content creation based on input from diverse stakeholders. There were 1,478 Financial Literacy Centres (FLCs) in India as of December 2020. During fiscal year 2019-20, these FLCs carried out a total of 1,48,444 financial literacy activities, with 45,588 financial literacy programs carried out between April and December 2020, impeded by the COVID-19 epidemic (RBI, 2021). Nevertheless, the RBI has introduced virtual financial education initiatives and leveraged cable television (TV) and public radio to disseminate messages aimed at promoting financialawareness.Recognizing the need to create standardized content to satisfy the needs of the general public in terms of financial knowledge on key banking issues, the RBI created the Financial knowledge Messages Booklet (FAME) in 2016.Due to recent developments in the financial sector, the content of the booklet has been updated to encompass 20 essential messages categorized under four key themes: financial skills, fundamental banking, digital financial literacy, and consumer protection. This revised pamphlet is now available in 11 regional languages and has been made accessible on the RBI's Financial Education website to ensure broader dissemination.

Present Status of Financial Inclusion and Financial Literacy in India

In addition to the continuous efforts to extend access to the formal financial system in India, there exists a substantial population, including potential entrepreneurs, small businesses, and various individuals, who remain excluded from financial services. This exclusion has a significant impact on India's advancement and economic well-being.According to the most recent World Bank Findex 2017 study, 80% of Indian adults have bank accounts, with the remaining 20% lacking access to the formal financial system (Demirguc-Kunt et al., 2018).'According to the survey, India has the world's second-largest unbanked population, with about 190 million people without an account, after China, which has 225 million unbanked individuals. 90% of unbanked Indian adults reported having government-issued identification. Every fourth unbanked Indian adult is between the ages of 15 and 24. Less than half of account holders have debit cards, and only around one-third of those who do utilize them to make direct purchases. Less than 10% of account holders make transactions through their accounts using a mobile phone or the internet. The survey also highlighted the intriguing fact that in India, over half of account owners have an account that was inactive the previous year (2017), which is the highest in the world and nearly twice the average for developing countries of 25%. The government launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014, which led to a substantial rise in the number of individuals holding bank accounts and brought millions of Indians into the formal banking system; however, many of them may not be able to use their new account. Interestingly, 100 million persons with dormant accounts have a debit card, whereas approximately 250 million (66%) have mobile phones. Almost 60% of account users reported not saving at all. In India, almost 16 out of every 100 people do not save at all. Most of these people are either students or work in the unorganized sector as rickshaw pullers, street sellers, and so on, earning little money on a daily basis that is insufficient to meet their basic nutritional needs (Rawat & Gambhir, 2017). Following the momentous reforms of 1991, India has expanded a wide range of economies by closing gaps in its people's living standards. Nonetheless, a large portion of the country's inhabitants was socially and economically evacuated. It is critical that social inclusion be accompanied with financial inclusion.

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