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Financial Inclusion as a Driver for Emerging Country Like India

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ABSTRACT

“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.” These words of Franklin D.Rosseuelt are in the line of present economic condition of underdeveloped countries like India. India's economy, which is expanding quickly, must adhere to the philosophy of everyone's support and growth. Financial inclusion (FI) has proven to be the most effective weapon in the fight for inclusive growth and sustainable development in the present scenario. It is regarded as the precursor that would enable wider participation by vulnerable groups such as weaker portions and low income group in the financial system. The objective of this study is to understand the present status of financial inclusion in India, flaws that are impeding the progress of financial inclusion and schemes providing access to inexpensive financial service like banking and insurance.

Keywords: Financial inclusion, Banking, Insurance, Sustainable Development

INTRODUCTION

Whenever it comes to economic growth, we must hit close attention to every aspect of society because support from everyone and growth of each individual are vital for the country to prosper. One of the major challenges that has been acknowledge in the path of economic development and growth particularly in emerging nation is lack of access to financial services to the small /marginal farmers and the less fortunate segments of the community[1]. One of the finest remedy to tackle this scenario is the notion of financial inclusion[2] which is broadly defined as a financial access to wide range of financial services at a reasonable cost which is needed by vulnerable groups such as weaker section and low income groups. These include not only banking services but also other financial services such as insurance and equity. Financial inclusion was developed as a result of the need to offer financial services to people with less resource that can help them become better and more efficient at managing their finances.

Objective of the Study

1. To understand the present status of financial inclusion in India.
2. To find how the schemes providing access to financial services.
3. To find the flaws that are impending the progress of financial inclusion.

Research Methodology

For this investigation, secondary data from a variety of sources were employed. The study made considerable use of secondary data. Secondary data has been gathered from various offline and online journal, Articles, websites and RBI reports, economic survey report, e-journals.

Review of Literature

Hannig and Jansen (2010) asserted that financial inclusion also has the potential to increase financial stability because low-income individuals' access to formal financial institutions' savings can increase households' capacity to manage financial vulnerabilities brought on by the crisis, diversify the funding base from financial institutions that can reduce shocks when global crises occur, increase economic resilience by accelerating growth, and facilitate diversification of the funding base.

Caamara and tuesta(2014)in their study says that financial inclusion is an essential ingredient of economic development and poverty eradication as it can also be a way of preventing social exclusion.

In his research, Aggarwal V.K (2014) came to the conclusion that there are many barriers to financial inclusion in India, including illiteracy and a lack of advanced technology in rural areas. He recommended that the government create new plans to promote inclusive growth through financial inclusion.

Dangi and Kumar (2013) investigated the policy decisions made by the RBI and the Indian government. This study also concentrated on India's financial inclusion's present state and potential future. Financial inclusion is showing positive and significant advances, but the business model needs to include enough safeguards to ensure that the poor are not turned off by banking.

In an effort to study the role of SHGs in financial inclusion, Uma and Rupa (2013) highlighted the beneficial association between SHG participation and financial inclusion. According to the study, there was an increase in bank accounts after SHG membership, and the members' use of credit and annual loan repayment showed positive trends as well.

Economic growth is significantly influenced by financial development, as demonstrated by Falahaty and Hook (2013). This finding demonstrates how important it is to enhance banking sector performance in order to promote economic growth.

The expansion of financial inclusion, according to Ahmed and Mallick (2019) and Pham and Doan (2020), benefits financial stability.

Present status of financial inclusion in India

The government and reserve bank of India have made promoting financial inclusion a top goal in India. The advancement of financial inclusion in India during the past decade has been significant.

As of march 2021, 68.9% of Indian adults, according to the RBI, have access to formal financial services compared to just 35% in 2011. This represents a significant improvement. FI has been a major policy priority, and the government has taken a number of steps to promote it, including:

1. Insurance Usage-

India's economy is currently among the most dynamic economies in the world because of its robust banking and insurance sectors.

As per the insurance regulatory authority of India (IRDAI), India will be the sixth largest insurance market within a decade leapfrogging Germany, Canada, Italy and South Korea. Insurance market in India is expected reach US$222 million by 2026. India has 57 insurance companies, 24 of which are engaged in the life insurance sector, and 34 non-life insurers. The only company in the public sector among the life insurers is Life Insurance Corporation (LIC). The non-life insurance market is served by six public sector insurers. The General Insurance Corporation of India (GIC Re) is the only national re-insurer in addition to these. Between 2019 and 2023, the life insurance market is anticipated to grow at a CAGR of 5.3%. In FY21, the penetration rate of insurance in India was estimated to be 4.2%, with non-life insurance penetration at 1.0% and life insurance penetration at 3.2%. India's overall density in terms of insurance was US$ 78 in FY21[4].

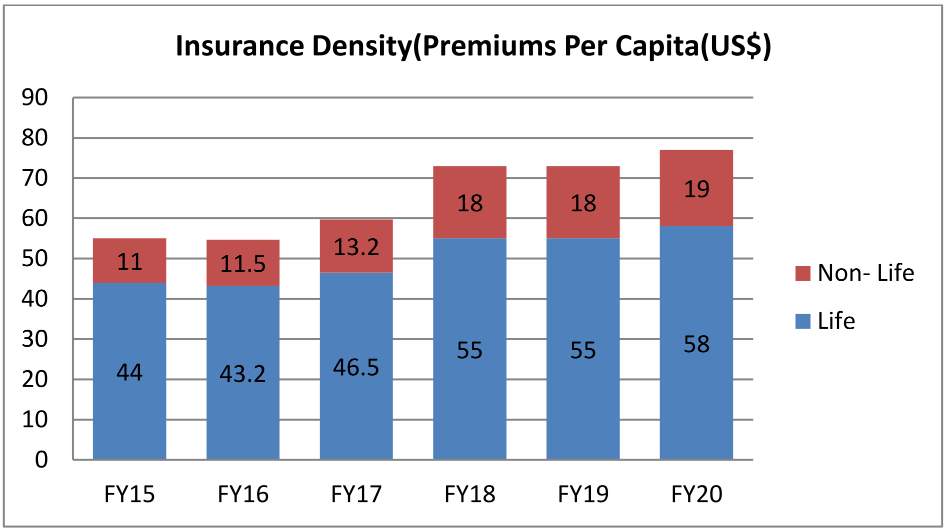


Figure 1 source ibef.org.in

Note: 1 Rupee = 0.012 US Dollars is the conversion rate applied for November 2022.

2. Access to bank-

The Reserve Bank of India (RBI) claims that the banking industry in India has sufficient resources and well-regulated. The country has significantly better financial and economic conditions than any other nation in the globe. The Indian banking system consists of 12 public sector banks as of 1 March 2023, there are 21 private banks, as of 1 March 2023, as of 1 November 2020, there are 43 regional rural banks, there are total 34 State Co-Operative banks, 53 scheduled Urban Co-Operative banks. There were 213,145 ATMs in India as of September 2021, with 47.5% of them located in rural and semi-urban areas.

Bank assets increased in all sectors in 2020–2022. In 2022, the total assets of the banking industry (including both public and private sector banks) rose to US$ 2.67 trillion. The total financial assets of the public and private banking sectors were respectively $1,594.41 billion and $925.05 billion in 2022.

3. Digital payment-

The Indian government is dedicated to enhancing the quality and strength of the financial sector as well as the standard of life for its people by increasing the number of digital transactions in the Indian economy. Because of the government's collective efforts and those of other interested parties, the number of digital payment transactions has greatly expanded, rising from 2,071 crore in FY 2017–18 to 8,840 crore in FY 2021–22. Immediate Payment Service (IMPS), National Electronic Toll Collection (NETC), and Bharat Interface for Money-Unified Payments Interface (BHIM-UPI), have experienced significant growth over the past five years and have transformed the digital payment ecosystem by increasing both person-to-person and person-to-merchant (P2M) payments. As the nation's preferred method of payment, BHIM UPI conducted 803.6 billion digital payment transactions worth 12.98 lakh crore in January 2023.

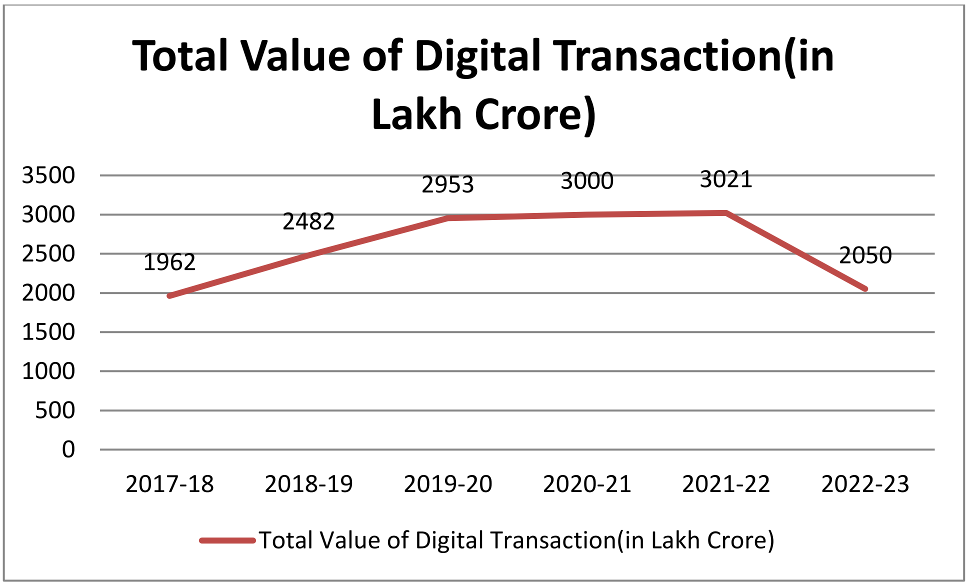
Following are the total amounts of digital payments made throughout the past five fiscal years and during the current fiscal year:

Fiscal Years(FY)	Total value of Digital Transaction(in lakh crore)
2017-18	1,962
2018-19	2,482
2019-20	2,953
2020-21	3,000
2021-22	3,021
2022-23	2,050*

*Data till 31st December2022

Source-Reserve Bank of India and banks

The Above data has been displayed through graph as you can see in fig



A greater degree of financial inclusion is possible because to digital payments, which provide anytime, anywhere account access. This makes it simple for people to receive payments in their accounts and to make payments using their phones. People who may have been discouraged by the inconvenience and expense of physically visiting a bank outlet for transactions can now quickly access their bank accounts online and enjoy the many advantages of joining the official banking system and becoming financially literate.

Micro finance - Microfinance has assumed centre stage as a promising conduit for expanding financial services to unbanked segments of the population as financial inclusion emerges as a prominent policy target in the country. The idea of micro finance was born out of the desire to assist low-income households in developing nations like India and lift them up and give them a better standard of living through more effective financial support. Microfinance **is not just about delivering microcredit to the underprivileged** but it is a tool for economic development with the aim of helping the poor escape poverty.. The present status of micro finance in India is mind –boggling, as of the end of March 2022, the plan presently serves US$ 140 million families and US$ 11.9 million SHG groups, totalling US$

472.4 billion in cumulative savings. The credit linkage is very impressive thus far; during FY 2021–2022, US$ 3.4 million SHGs (as opposed to US$ 2.9 million groups in 2020–2021) were credit connected, and US$ 997.2 billion in loans were disbursed.

Effective Financial Inclusion Programmes;

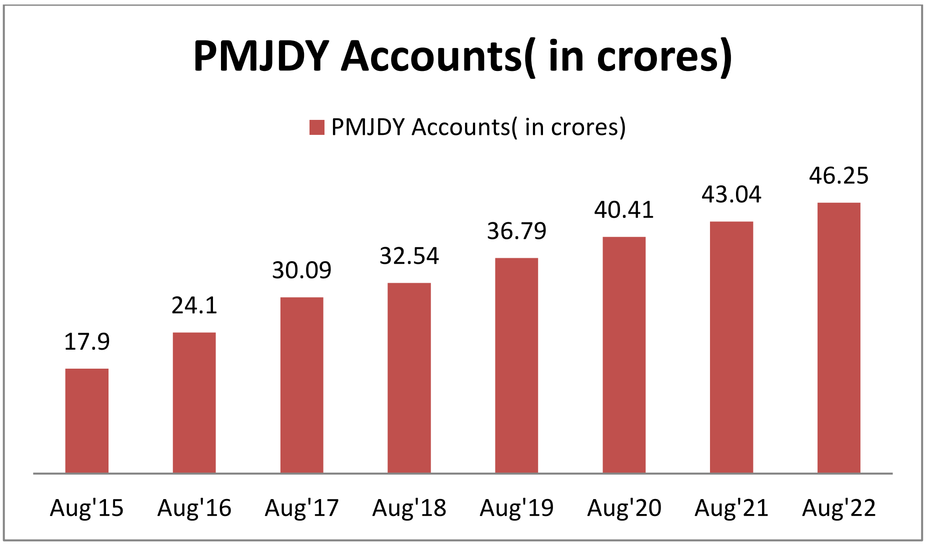
The Indian government has introduced a number of programmes over the past years that have benefited the citizens' financial situations while also boosted the economy of the nation. On June 22, 2006, the Indian government established a committee to improve financial inclusion in the country. In January 2008, the committee made its report public. The committee of financial inclusion has initiated a mission called National Rural Financial Inclusion Plan. It has set targets to increase financial inclusion in the country across regions and across institutions. In terms of financial inclusion, the Indian government has made a lot of noteworthy progress. Numerous programmes have been introduced to connect the underprivileged to official financial institutions. Some of programmes are-

1. **Pradhan Mantri Jan Dhan Yojana(PMJDY)**- The commencement of the "Pradhan Mantri Jan Dhan Yojana as a new scheme for financial inclusion" was announced by our honourable prime minister, Shri Narendra Modi, on August 15, 2014, the day of our independence. Its aim is to achieve financial inclusion for the most vulnerable groups in society by giving them access to bank savings and deposit accounts, credit options, insurance, and pension benefits. It makes an effort to lessen the negative consequences of prior programmes by providing the underprivileged elements of society with dignity, financial security, and independence.

- **Motive of PMJDY**-
  a. Ensure that financial products and services are available and cost-effective.
  b. Using technology to reduce costs and increase reach
- **Six verticals of PMJDY-**
  a. Universal access of financial services
  b. Creation of credit guarantee funds
  c. Financial literacy programmes
  d. Pension schemes for unorganised sector
  e. Micro insurance
  f. Basic savings bank accounts with overdraft facility of 10,000 to eligible adults.

Source; www.finmim.nic.in

- **Benefits under PMJDY**
  - 46.25 crore Opened Jan Dhan accounts (as of August 10, 2022).
  - 55.59% (25.71 crore) Women possess Jan-Dhan accounts.
  - 66.79% (30.89 crore) Rural and semi-urban areas have Jan Dhan accounts.
  - 17.90 crore PMJDY accounts were opened in the program's first year.
  - From 14.72 crore in March 2015 to 46.25 crore in august 2022, the number of PMJDY accounts has increased by more than three times.



Source-pib.gov.in

- **Impact of PMJDY**

The cornerstone of people-centered economic efforts has been PMJDY. All of these measures, including direct benefit payments, COVID-19 financial aid, PM-KISAN, improved wages under MGNREGA, and life and health insurance coverage, start with the provision of bank accounts for every adult, which PMJDY is almost done with.` One in two accounts opened between March 2014 to March 2020 was a PMJDY account.

Within 10 days of nationwide lockdown, more than about 20 crore women PMJDY accounts were credited with ex-gratia.

2. STAND-UP INDIA-

It was started on April 5th, 2016 to encourage entrepreneurship with an emphasis on economic empowerment and employment development. This programme has been extended by 2025. Stand-Up India was established to encourage entrepreneurship among women, Scheduled Castes (SC) and Scheduled Tribes (ST) categories, and to assist them in starting a greenfield enterprise in manufacturing, services or the trading sector, as well as activities related to agriculture. This initiative was launched in recognition of the difficulties that enthusiastic, hardworking, and aspiring SC, ST, and women entrepreneurs may encounter in turning their goals into reality. Its Main aim is to ;

a. Encourage enterpreneurship amongst female,sc/st categories.

b. Provide loans to newly established businesses engaged in manufacturing, services, or commerce as well as operations related to agriculturee Eg. beekeeping,poultry,livestock etc.
c. At least one borrower from a member of a Scheduled Caste or Scheduled Tribe, as well as one woman, must be granted a bank loan between Rs. 10 lakh and Rs. 100 lakh each Scheduled Commercial Bank branch.

3. Atal Pension Yojana-

To provide a comprehensive social security system for all Indians, the Atal Pension Yojana (APY) was introduced mainly for the impoverished, the destitute, and those employed in the unorganised sector. The government has taken this initiative to give persons who work in the unorganised sector financial protection and coverage for unforeseen expenses. The programme was introduced on May 9, 2015, and it became effective on June 1, 2015, it is governed by Pension Fund Regulatory and Development Authority(PFRDA).

Accomplishment of APY-

- As of April 27, 2023, more over 5 crore people had signed up for the programme.
- Over 45% of beneficiaries of atal pension yojana is women as of 27 April 2023

And in this way, the government is managing a lot of initiatives that help achieve the objective of financial inclusion, like Pradhan Mantri Vaya Vandana Yojana(PMVVY), Jeevan Suraksha Bandhan Yojana, Pradhan Mantri Mudra Yojana.

Challenges;

India has made significant progress in promoting financial inclusion but there is still a long way to go until financial inclusion. There are several issues and challenges in achieving the goal of FI, some of the major challenges and issues are as follows;

- **Restricted access to banking services-** Basic financial services are still unavailable to a sizeable majority of India's population, particularly in rural areas. It is challenging for people to access official financial institutions because many distant communities lack actual bank offices.
- **Lack of financial literacy-** The capacity to manage a variety of financial abilities, such as investing, budgeting, and managing one's personal finances, is known as financial literacy. Recent years have seen a rise in financial services and investments among people from all socioeconomic groups. But still only 24% of adult Indians are financially literate, according to a study by the Global Financial Literacy Excellence Centre. India has the lowest level of financial literacy among other significant emerging economies. Interstate inequities, a lack of formal education, and lack of awareness are to blame for this. Although financial literacy rates in other emerging economies are higher, but there is always room for development.
- **Cash-based and unregulated economy-** India has a sizable informal economy, in which most financial transactions take place outside of official channels. In many areas of the country, cash is still the most common form of payment. The scope of financial inclusion initiatives is constrained by this reliance on cash, and increasing digital transactions is made more difficult.
- **Gender inequality**: Women in India have particular difficulty in getting financial services. Women's financial autonomy may be restricted and their ability to fully participate in the formal economy may be hindered by social, cultural, and discriminatory reasons.

- **Limited access to dependable internet connectivity and digital infrastructure -** Access to dependable internet connectivity and digital infrastructure is limited, which is a serious problem, especially in rural areas. People find it challenging to acquire digital financial services and engage in the established financial system without sufficient connectivity and access to technology.

Conclusion

A wide body of research demonstrates that more financial inclusion can greatly reduce poverty and increase shared prosperity, but efforts must be carefully planned. There are several arguments in favour of growing financial inclusion. Although the evidence for microfinance is less favourable, more household access to financial services can help households reduce cash flow problems, smooth out their spending, and improve their savings for retirement and other requirements.

In conclusion the execution of government programmes, the expansion of microfinance institutions, and the emergence of self-help groups have all contributed to India's significant advancements in financial inclusion. By promoting economic empowerment and financial security, these efforts have had a significant impact on the lives of millions of people. To achieve total financial inclusion throughout all facets of Indian society, it is essential to address the remaining issues, such as enhancing financial literacy, removing geographical restrictions, and resolving gender imbalances.

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