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Financial Inclusion in India in context of Inclusive Growth

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Abstract

Inclusive Growth can be achieved through financial inclusion. In India; Financial Inclusion is a national Priority as it is a facilitator for inclusive growth. To achieve the objectives of inclusive growth there is a need for resources; and for generation and mobilization of resources financial inclusion is required. It is an important indicator of economic growth. Financial inclusion through appropriate financial services can solve the problem of resources availability, mobilization and allocation. The objective of financial inclusion is to extent the scope of activities of the organized financial system to include within its sphere people with low income.

The present paper is an attempt to discuss the overview of financial inclusion in India, along with its significance in economic and social development of society in context with inclusive growth

Keywords: Financial Inclusion, Inclusive growth, financial services, GDP, economic growth, envisioning a sustainable future.

Introduction

Offering banking and financial services to each and every individual is a key concept of financial inclusion. Its main objective is to include everybody in society by giving them basic financial services irrespective of their income and savings. Its emphasis on providing financial solutions to the economically poor people. The term is broadly used to describe the provision of savings and loan services to the poor in an inexpensive and easy-to-use form. It aims to take care of the poor and marginalized to make the best use of their money and to achieve financial education. Innovation and advances in financial technology and digital transactions, has helped to come up with more and more startups for making financial inclusion simpler to achieve.

Definition

Financial inclusion means that **individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way**.

(By World Bank Group)

"The process of ensuring access to financial services, timely and adequate credit for vulnerable groups such as weaker sections and low-income groups at an affordable cost".

(Committee on Financial Inclusion - Chairman: Dr C Rangarajan, RBI, 2008).

The National Strategy for Financial Inclusion 2019-2024 has put forward the vision and key objectives of the financial inclusion policies in India to expand and sustain the financial inclusion process at the national level through a broad convergence of action involving all those who are stakeholders of the financial sector. The strategy aims to provide access to formal financial services in an affordable manner, providing details of financial inclusion and promoting financial literacy & consumer protection.(Source: National strategy for Financial Inclusion) Financial inclusion is now popularly known as an important indicator of economic growth and poverty alleviation tool for the whole world. Access to formal finance can foster job creation, reduce weakness of economic shocks and increase investments in human capital. Inadequate access to formal financial services, individuals and firms need to depend on their own limited resources or on costly informal sources of finance to meet their financial requirements and pursue growth opportunities. Higher financial inclusion can support sustainable and inclusive socioeconomic growth for all. Financial exclusion, on the other hand, leaves the disadvantaged and low- income segments of society with no option other than informal options, making them susceptible to financial distress, debt, and poverty

Financial Inclusion and United Nations Sustainable Development Goals

It is also noteworthy to state that, 7th of the seventeen United Nations Sustainable Development Goals (SDG) of 2030 view financial inclusion as a key enabler for achieving sustainable development worldwide by improving the quality of lives of poor and marginalized sections of the society. (Source- Sustainable Development Goals, 2018)

Importance of Financial Inclusion

Financial inclusion reinforces the availability of economic resources and builds the habit of savings among the poor. Financial inclusion is a greater step towards inclusive growth. It helps in the overall economic development of the deprived population. In India, effective financial inclusion is needed for the upliftment of the poor and disadvantaged people by providing them with the advanced financial services.

Objectives of Financial Inclusion

1. To help people to assured financial services and products at reasonable and economical prices like deposits, fund transfer services, loans, insurance, payment services, etc.
2. To establish financial institutions to serve the needs of the poor people. These institutions should have strict regulations
3. To build and maintain financial sustainability to have a certainty of funds to underprivileged people which they struggle to have.
4. To have numerous financial institutions that offer affordable financial so that clients have a lot of options to choose from.
5. To increase awareness about the advantages of financial services among the economically weaker sections of the society.
6. To upgrade financial literacy and financial awareness in the nation.
7. To bring in digital financial solutions for the economically underprivileged people of the nation.
8. To bring in mobile banking or financial services in order to reach the poorest people living in extremely remote areas of the country.
9. To provide tailor-made and custom-made financial solutions to poor and economically deprived people as per their individual financial conditions, household needs, preferences, and income levels.

Many poor and uneducated people are not able to open bank accounts or apply for a loan as they do not have any identity proof. There are so many people who live in rural areas or tribal villages who do not have knowledge about documents such as PAN, Aadhaar, Driver's License, or Electoral ID. So that they won't be able to avail many of the services offered by governmental or private institutions. Due to lack of these documents, they are reluctant from any form of subsidies offered by the government that they are actually belongs to. There are many governmental agencies and non-governmental organizations that are dedicated to bringing in financial inclusion. These agencies are focused on improving the access to receiving government-approved.

Objectives of the Study

1. To give an overview of current status of Financial Inclusion in the Indian Economy
2. To analyse the role of financial inclusion in inclusive growth in present scenario in India
3. To explore the significance of financial inclusion in economic and social development of society

Research Methodology: Looking into requirements of the objectives of the research design employed for the study is of descriptive type. The present study has been carried out with the help of secondary data source. Keeping in view of the said objectives, available secondary data was extensively used for the study. The investigator procures the require data through secondary survey method. Different news articles, published journals, economic surveys, Books, reports and web were used which were enumerated and recorded.

Literature Review

1. Dr. Swamy V and Dr. Vijayalaxmi (2010), in their article. "Role of Financial Inclusion for inclusive growth in India- Issues and challenges" clams that financial inclusion gained importance due exclusion of financial inclusion. Nearly India's 135 million populations are still far away from financial services, the

second highest after China. Through proper programme on financial inclusion the attempt is to lift the excluded people from step 1 to step 2. There should be strong co-ordination between the Government and other financial institution to provide financial services to the excluded people by opening bank account, at least each household should have one bank account.

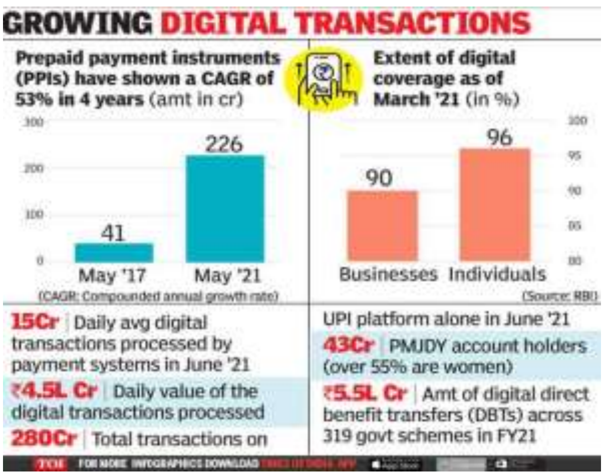
2. Balkrishna M(2015) said that the support of financial inclusion can be achieved only through linkages between micro finance institutions and local communities' bank should give mass publicity zero balance account. Accessing banking products by using more technology in the rural areas and modify ATM's as user friendly for those are illiterate and less educated.
3. Babajide , A.A., Adegboye, F.B., & Omankhalen, A.E.(2015). Banks needs to redesign their service approach to promote financial inclusion to low income group and consider the policy as business opportunity and corporate social responsibility.
4. Sendhilevelan. M and Kartikeyan (2006) revealed to ensure financial inclusion of all segments of the population. Both rural and urban areas bank should highly focus on 'no-frill' accounts. The bank should also make a move of the concept of anytime , anywhere and everyone banking.
5. Peric,K. (2015). Technology can be a very valuable tool in providing access to banking product in remote areas. But ATM's still are not considered user friendly by the people who are illiterate and non-user of technology. Banks in this case needs to reengineer the design of existing technology which creates opportunity for traditional user to use technology

Findings

Financial Inclusion in the Indian Economy: The article published in Times of India on Aug 18, 2021 The Reserve Bank of India (RBI) has said that there was a **24% improvement in financial inclusion** (FI) as measured by RBI's FI-Index between March 2017 and March 2021.

The FI-Index incorporates details of banking, investments, insurance, postal as well as the pension sector in consultation with government and respective sectoral regulators. In April 2021, the RBI had announced that it would launch the FI-Index to capture the extent of financial inclusion. The highest weightage in the index (45%) is given to the usage of various financial services, followed by access (35%) and quality (20%).

The index captures information on various aspects of financial inclusion in a single value, ranging from 0 to100, where 0 represents complete financial exclusion and 100 represents full financial inclusion.



The most important driver of financial inclusion in the country has been the Pradhan Mantri Jan Dhan Yojana (PMJDY). There are approximately 42.6 crore PMJDY account holders in India where more than 55% account holders are women. The Jan Dhan Yojana was launched in 2014, the usage of the accounts rises up with the increase in direct benefit transfers (DBTs), which were facilitated by advance digital platforms and Aadhaar card

The impact of the digital payment in DBT can be discerned from the fact that Rs 5.5 lakh crore was transferred digitally across 319 government schemes spread over 54 ministries during 2020-21.

From the pandemic and its limitations to some limitations financial inclusion got a boost due to the increased usage of digital platform by small merchants and peer-to-peer payments.

Shaktikanta Das ,the governor ofRBI at the financial inclusion summit said, that during the "Covid pandemic it clearly indicate that financial inclusion and inclusive growth reinforce financial stability," and "As of March 2021, banks have achieved a digital coverage of 95.9% of individuals, while the achievement for businesses stood at 89.8%,The rise of the fintech's (financial technology) have also supported financial inclusion as they innovated to simplify and promote digital payments like the UPI (Unified Payments Interface)."

Financial Inclusion Schemes in India

The Government of India has introduced many financial schemes to achieve the objective of financial inclusion. The purpose of these schemes is to provide social security to the underprivileged sections of the society. The financial experts and policymakers took the lot of efforts for planning and research the several government schemes; keeping in mind, the objectives of financial inclusion. The followings are the some of the government schemes for financial inclusion.

1. Pradhan Mantri Jan Dhan Yojana (PMJDY)
2. Atal Pension Yojana (APY)
3. Pradhan Mantri Vaya Vandana Yojana (PMVVY)
4. Stand Up India Scheme
5. Pradhan Mantri Mudra Yojana (PMMY)
6. Pradhan Mantri Suraksha Bima Yojana (PMSBY)
7. Sukanya Samriddhi Yojana
8. Jeevan Suraksha Bandhan Yojana
9. Credit Enhancement Guarantee Scheme (CEGS) for Scheduled Castes (SCs)
10. Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives
11. Varishtha Pension Bima Yojana (VPBY)

Role of Financial Inclusion in Inclusive Growth

Economic growth that creates employment opportunities and helps in reducing poverty is known as Inclusive Growth. It means poor people should have access to essential services in health and education . It also includes providing equality of opportunity and empowering of people through skilled education and skill development.

The Oxford dictionary defines inclusive growth as, "the growth that does not exclude any section of society

UNDP has described inclusive growth as "the process and the outcome where all groups of people have participated in growth and have benefited equitably from it".

Inclusive growth is the process in which, economic growth measured by a sustained expansion in GDP and scope of all 4 dimensions i.e. Opportunity, Capability, Access, and Security. Inclusiveness results into overall development including all the important areas and sectors of the nation.

India requires inclusive growth in order to achieve fast and disciplined growth. Inclusive growth is necessary for sustainable development and equal distribution of wealth and prosperity. Achieving inclusive growth is important and it is one among the biggest challenge for India.

Rangrajan Committee (2008) on Financial Inclusion.: The financial system in India has changed on a rapid scale in the last few decades. The functional and geographical coverage of the system is illustrative. Nevertheless, data do show that there is exclusion and that poorer sections of the society have not been able to access adequately financial services from the organized financial system. There is a drastic need to advance and modify the credit and financial services delivery system to achieve greater financial inclusion. The implementation of the recommendations made in this Report could sustain in long run to modify particularly the credit delivery system of the banks and other related institutions to meet the credit requirements of marginal and sub-marginal farmers in the rural areas. Hence, creating a correct credit delivery system is only an important condition. This needs to be supported by efforts to improve the productivity of small and marginal farmers and other entrepreneurs so that the credit made available can be productively employed. Banks and other financial institutions can also take efforts on their own to improve the absorptive capacity of the clients, it is equally important for Government at various levels to initiate actions to enhance the earnings capacity of the poorer sections of the society. The two together can bring about the desired change of greater inclusion quickly

Significance of financial inclusion in economic and social development of society

Since decades, only the middle and high classes of the society used to get access of formal types of credit. Poor people were not having any option other than to rely on unorganised and informal forms of credit. Many of them were uneducated and lacs basic knowledge about finance and hence, they got cheated and misguided by the greedy and rich people of the society. Several poor people have been exploited for years for the access of financial assistance. They used to be a victim by unorganized financial sectors.

Financial inclusion expects everybody in the society to be included and participate in financial management wisely. There are many poor households in India that lacs access to financial services in the country. They are unaware of banks and lacs access of their functions. Even if they are aware of banks, many of the poor people denied the access to get services from banks.

They are unable to meet minimum eligibility criteria laid by banks and hence, they will not be able to secure a bank's services. Banks have few requirements such as minimum income, minimum credit score, age criteria, and minimum years of work experience. A bank will provide a deposit or a loan to an applicant only if he or she meets the above criteria. Many of the poor people may be unemployed without any previous employment record due to lack of education, lack of resources, lack of money, etc.

These people who belongs to economically weaker section of the society may also not have proper documents to provide to the banks for verification of identity or income. Every bank has certain mandatory documents that need to be furnished during a loan application process or during a bank account creation process. Many of these people do not have knowledge about the importance of these documents. They also do not have access to apply for government-sanctioned documents.

Financial inclusion aims to eliminate these barriers and provide economically priced financial services to the underprivileged sections of the society so that they can be financially independent without depending on charity or other means of getting funds that are actually not sustainable. Financial inclusion also intends to spread awareness about financial services and financial management among people of the society. Moreover, it wants to develop formal and systematic credit requirements for the poor people.

Conclusion: Financial inclusion is the process of ensuring access to financial products and services needed by vulnerable groups at an affordable cost in a transparent manner by institutional players. The success of financial inclusion is purely dependent on offering financial services to poor section society at affordable cost. Commercial Banks have to play an important role in providing financial facility to the unbanked population. Banks must offer attractive skills so that more and more savings account can be opened which will benefit all the stakeholders.

An inclusive financial system mobilizes more resources for productive purposes leading to higher economic growth, better opportunities and reduction of poverty keeping this in mind government, RBI, banks and other financial institutions are making policy interventions to accommodate the vulnerable into the financial system. For achieving the current policy stance of "inclusive growth the focus on financial inclusion is not only essential but a prerequisite.

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