



# Role Of Financial Inclusion In Indian Economy

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**Abstract:** Finance which holds a significant place in the economy is accountable for the societal development as well as economic development for any nation in the world. To achieve this there is a need for a very solid and well-defined financial system. Financial Inclusion helps in achieving unbiased and comprehensive advancement of a nation. Financial accessibility has become a significant priority for policymakers in recent times. Ensuring equal access to the financial system for all individuals, irrespective of their financial situation, has become an important objective for the government. Financial Inclusion means making financial and banking services available at nominal prices to individuals irrespective of their economic status. Its prime focus is to give financial aid to the impoverished sections of society. The objective is to empower the disadvantaged and underprivileged to manage their finances effectively and acquire financial knowledge. Advancements in financial technology and digital payment platforms have enabled more startups to make financial inclusion more accessible and attainable. This paper examines several government efforts, their implementation challenges, and the important role that financial inclusion plays in the Indian economy.

**Keywords:** Financial Inclusion, Economic Development, Banking Services

## Introduction

Gaining access to financial services and products from established financial institutions is crucial for the socioeconomic development of any nation. It is essential that all segments of the population have easy and hassle-free access to these services, as it is a key factor for the holistic growth of a country, especially one with a disadvantaged population. Unfortunately, in many countries, including developed economies, there is no universal financial access due to various reasons. The economic well-being of individuals, as well as the collective prosperity of the country, largely depends on the availability, affordability, and accessibility of financial services, without any geographical or time constraints. Individuals from the lower strata of society are often excluded from accessing financial services due to their economic status, which has a ripple effect on their livelihoods. This predicament can be attributed to factors such as their lack of awareness, lower perceived need, limited initiative, higher service costs, unfavorable market conditions, and the absence of access points, all of which contribute to their continued disadvantage. Furthermore, there are instances where people with exceptional entrepreneurial skills and creativity are unable to pursue their economic activities due to the lack of financial access.

Since the Reserve Bank of India advised banks to review their procedures and bring them into line with the objective of guaranteeing wider financial accessibility in 2005, admitting the exclusion of substantial portions of the population from banking services, financial inclusion has grown in importance in India. Expanding access to formal financial services can drive job growth, shield people from economic upheavals, and promote investments in people's well-being. When individuals and businesses lack sufficient access to formal finance, they must turn to their own scarce resources or turn to expensive informal lenders to address their

financial needs and pursue growth chances. On a wider scale, enhancing Financial Inclusion can foster sustainable and inclusive economic and social progress for everyone. Financial Inclusion is an innovative approach that encourages alternative methods to foster banking practices, ultimately serving as a catalyst in the fight against poverty. By providing convenient and inclusive banking solutions, this concept empowers individuals and communities, offering them the tools to improve their financial well-being and break the cycle of economic hardship.

The national financial inclusion plan for 2019-2024 lays out the vision and main goals of the policies aimed at increasing financial inclusion across India. This strategy seeks to bring together all the key players in the financial industry to work towards expanding and maintaining financial inclusion nationwide. The plan's goals are to increase the affordability and accessibility of formal financial services, increase the scope and depth of financial inclusion, and advance consumer protections and financial education.



**Fig 1. Components of Financial Inclusion**

Source: <https://byjus.com/free-ias-prep/august-issue/>

### ***Objectives of the study***

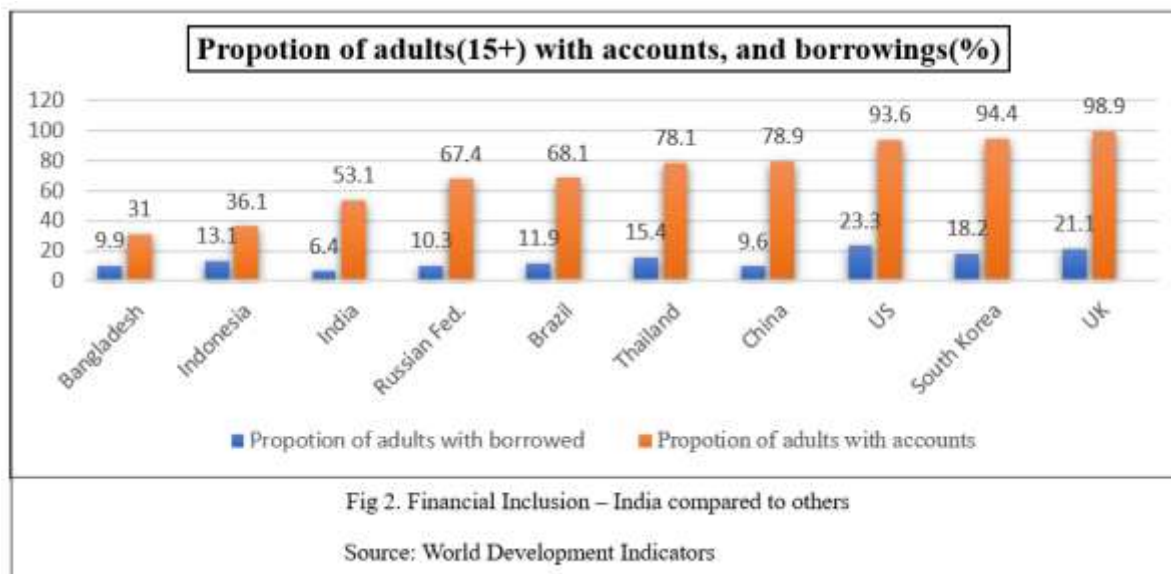
To study the role and theoretical framework of Financial Inclusion in the Indian Economy. This descriptive study is grounded in secondary sources. It aims to uncover insights about the concept and examine the present situation of financial inclusion in India. The secondary data originates from research publications, news articles, books, thesis, and RBI reports.

### ***Financial Inclusion in India***

Financial inclusion involves providing everyone in society equitable access to banking and financial services. This approach seeks to ensure that everyone, regardless of their income or savings, can benefit from essential financial services. The goal is to offer reliable and transparent financial solutions, particularly to the economically disadvantaged, without any form of discrimination or unfair treatment. Financial inclusion is committed to making these services readily available to all while maintaining transparency and avoiding hidden costs or transactions. Encouraging everyone in society to actively participate in effective financial management is the goal of financial inclusion. In India, a large number of low-income households do not have access to financial services and are not aware of banks or their products. Even when they are informed, these individuals frequently encounter obstacles when trying to use banking services.

Financial inclusion prioritizes involving women in the household's financial matters. It's believed that women excel at managing money compared to their male counterparts. As such, financial inclusion initiatives aim to empower women by helping them actively participate in financial management. Regrettably, there are many

households where women are barred from handling finances, with men dictating their domestic responsibilities. These days, financial institutions are trying to get those without financial accounts included in the banking system. These efforts particularly aim to empower women financially by offering them special rates, exclusive discounts, and other benefits. For instance, many banks provide women with lower interest rates on their loans. Additionally, some banks and financial companies offer women higher interest rates on their savings accounts compared to men.



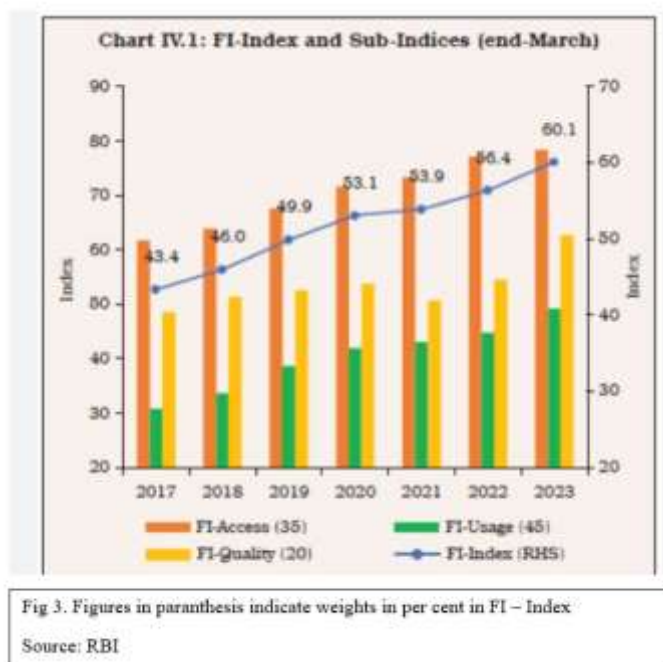
The above figure shows the status of financial inclusion in India compared with other countries.

Cutting-edge technology is transforming the world of finance. Fintech, as it's known, is revolutionizing financial services, making them more accessible and affordable for people globally. Leading the way in India are creative fintech companies that are simplifying the process of offering financial solutions to future customers. These companies have found ways to offer financial services and solutions at remarkably low costs, benefiting consumers by allowing them to allocate their savings to other needs. Fintech is remarkably empowering people, even those living in remote locations, as it allows them to open bank accounts or apply for loans with just their mobile devices. With many Indians in remote regions now owning smartphones and having mobile internet access, they can conveniently utilize fintech services to obtain reliable financial services.

### ***Need for financial inclusion in India***

- ❖ **Reduction of poverty**
- ❖ **Encouraging financial growth**
- ❖ **Enabling delivery of services**
- ❖ **Improving efficiency in the banking sector**

Increased savings and easier access to financial services are the results of financial inclusion. This would increase employment levels and help to reduce poverty and income inequality. It increases the nation's capital formation and improves the economy by encouraging the saving habit. Increased productivity and prosperity in rural regions can be achieved by fostering the entrepreneurial spirit among people through the provision of high and transparent financing from official banking institutions. It is now feasible to make direct cash transfers to beneficiary bank accounts rather than making in-person cash payments for subsidies. This guarantees that money doesn't get diverted along the way and instead reaches the designated recipients. Higher operating efficiency in financial intermediation could be experienced by banks working in the financial inclusion area.



The above figure shows how financial access, financial quality, financial usage, and financial index have evolved over the years.

### **Government Initiatives**

The Government has introduced a lot of schemes and initiatives for promoting financial inclusion among different sectors of the nation. A few of them are

#### **Banking Initiatives:**

**Business correspondents:** Banks can now employ representatives to bring financial and banking services directly to people's doorsteps, as approved by the Reserve Bank of India.

**KYC relaxation:** The guidelines for opening small bank accounts have been loosened over time. Back in 2005, the rules were relaxed to make it more accessible for people to open these types of accounts. Then, the introduction of Aadhaar further simplified the process, making it even more convenient for individuals to set up their own bank accounts.

**Regional Rural Banks:** Rural banking institutions were established to cater to the financial requirements of people living in the countryside, as per the recommendations of the Narasimham Working Group in 1975.

**Jan Dhan, Aadhaar, and Mobile:** The plan involves a three-pronged approach that centers around harnessing the power of digital tools. This includes expanding financial inclusion through Jan Dhan bank accounts, establishing a biometric identity system with Aadhaar, and enabling digital transactions via mobile platforms.

**No-frills accounts:** Simple bank accounts are available that don't need a specific minimum amount of money to be kept in them. This makes these accounts more widely accessible to many people.

#### **Social Security Initiatives:**

- ❖ Atal Pension Yojana
- ❖ Stand Up India Scheme
- ❖ Sukanya Samriddhi Yojana
- ❖ Varishtha Pension Bima Yojana
- ❖ Credit Enhancement Guarantee Scheme
- ❖ Venture Capital Fund
- ❖ Jeevan Suraksha Bandhan Yojana
- ❖ Pradhan Mantri Jan Dhan Yojana

- ❖ Pradhan Mantri Mudra Yojana
- ❖ Pradhan Mantri Suraksha Bima Yojana
- ❖ Pradhan Mantri Vaya Vandana Yojana

**Atal Pension Yojana:** It is a scheme that provides a monthly minimum support of one thousand to five thousand rupees to the disorganized sections of the community when they are not able to earn for their living.

**Stand Up India Scheme:** The goal of the Stand Up India campaign is to encourage women from Scheduled Castes and Scheduled Tribes to become entrepreneurs. The program, which offers bank loans ranging from 10 lakhs to 1 crore rupees, is overseen by the Department of Financial Services, Ministry of Finance, Government of India. The goal of these loans is to support the establishment of new businesses in the manufacturing, services, or trading sectors by at least one borrower who belongs to a Scheduled Caste or Scheduled Tribe and one borrower who is a woman per bank branch. An SC/ST or female entrepreneur must have at least 51% of the ownership and management of non-individual businesses.

**Sukanya Samridhi Yojana :** The Sukanya Samridhi Yojana is a government-supported savings plan designed to empower young girls. It's part of the Beti Bachao, Beti Padhao initiative, allowing parents of girls under 10 to open accounts at designated banks or post offices. These accounts have a 21-year lifespan or can be maintained until the girl reaches 18 and marries. The scheme offers an attractive interest rate and various tax advantages, making it a valuable investment in a girl's future.

**Varishtha Pension Bima Yojana:** The Indian government has reintroduced the Varishtha Pension Bima Yojana in the 2014-2015 national budget. This scheme is managed by the Life Insurance Corporation and aims to provide financial stability for older adults aged 60 and above, offering them a guaranteed return on their investment.

**Credit Enhancement Guarantee Scheme:** This national initiative aims to empower the scheduled caste community in India by fostering entrepreneurship. It seeks to encourage innovation and the adoption of growth-oriented technologies among this population. To achieve this, the program provides credit guarantee support to banks and financial institutions, enabling them to extend financial assistance to scheduled caste entrepreneurs. This, in turn, will help these entrepreneurs create wealth, add value to society, generate employment, and build their confidence while establishing successful businesses. The assets and enterprises developed through this initiative will also contribute to the creation of forward and backward linkages, generating a ripple effect within the local community and the broader society.

**Venture Capital Fund:** The Venture Capital Fund for Scheduled Castes Tribe is a pioneering initiative spearheaded by the Ministry of Tribal Affairs, Government of India. Its primary objective is to foster entrepreneurship among the Scheduled Castes and Tribes in India by offering them favorable financial support. This unique fund aims to empower and encourage members of the Scheduled Castes and Tribes to pursue their business aspirations and contribute to the country's economic growth.

**Pradhan Mantri Mudra Yojana:** The Pradhan Mantri Mudra Yojana is a crucial initiative launched by the Indian government. It offers micro-loans of up to 10 lakhs rupees to small, non-farm businesses involved in manufacturing, trading, or providing services, including agricultural-related activities like poultry, dairy, and beekeeping. This scheme aims to support the financial needs of micro and small enterprises in the non-corporate, non-agricultural sectors, enabling them to access the credit they require to grow their businesses.

**Pradhan Mantri Suraksha Bima Yojana:** A safety net for unforeseen incidents, this insurance plan provides financial protection in the event of accidental loss of life or unexpected disabilities resulting from an accident. It offers coverage for accidental fatalities and disabilities, ensuring peace of mind and security for you and your loved ones.

### ***Challenges to fully achieve Financial Inclusion in India***

- Reliance on informal lending alternatives is common, and difficulties in comprehending financial products, terms, and conditions create additional barriers.
- In India, where a significant portion of the population struggles with illiteracy and poverty, ensuring financial inclusion becomes a daunting task.
- The biggest challenges are low earnings and the incapacity to offer collateral security.
- Women and people with disabilities face even greater challenges in accessing the formal financial system.
- The scarcity of bank branches in rural areas further hinders access to financial services.
- The lack of reliable, affordable, and high-quality financial guidance further compounds the issue.
- Furthermore, enhancing financial inclusion in India is becoming more difficult as a result of the growing amounts of Non-Performing Assets (NPAs) caused by significant business defaults.

### **Conclusion**

Providing financial services to underprivileged and low-income individuals at a reasonable price is known as financial inclusion. In India, the fundamental idea of financial inclusion is demonstrated through a savings bank account or current bank account. However, it encompasses much more, such as insurance and loans to the deprived sections and various other financial products, catering to all members of the economy. An inclusive financial system offers numerous benefits. Unfortunately, the economically disadvantaged section of our population lacks easy access to banking services. Having access to financial services makes it easier for individuals and businesses to manage their day-to-day needs, as well as plan for both long-term objectives and unexpected challenges. People are more likely to use credit and insurance, among other financial tools, when they have accounts. This can assist individuals in launching and expanding their businesses, making investments in healthcare or education, reducing risks, resolving financial challenges, and eventually improving their general well-being.

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