IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

The Concept Of Financial Inclusion And Its Importance In Economic Development

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Concept of Financial Inclusion:-

Financial inclusion refers to efforts to make financial products and services accessible and affordable to all individuals and businesses, regardless of their personal net worth or company size. Socio-economic inequalities and gender inequalities can hinder financial inclusion, with women and marginalized groups potentially facing greater barriers to access and control of financial resources. Financial inclusion seeks to remove barriers that prevent people from participating in the financial sector and using these services to improve their lives. Financial inclusion is the process of ensuring that all individuals, especially disadvantaged and marginalized populations, have access to affordable and appropriate financial services. It aims to empower people by providing access to tools such as savings accounts, credit, insurance and digital payment options, enabling them to participate in the formal financial system, manage their finances and become financially self-reliant.

Major findings regarding financial inclusion:

• Financial inclusion is an effort to provide everyday financial services at affordable costs to most of the world's population.

• Financial inclusion may be across geographic regions, consumers of a specific gender, consumers of a specific age, or other marginalized groups.

• Financial inclusion occurs through overall innovation, economic growth and increased consumer knowledge.

• Advances in fintech, such as digital transactions, are making financial inclusion easier to achieve.

History and initiatives of financial inclusion in the world:-

Former UN Secretary-General Kofi Annan said on 29 December 2003: "The bitter reality is that the majority of poor people in the world still do not have access to sustainable financial services (savings, credit and insurance). The major challenge is that those Remove barriers that deny people full participation in the financial sector, which is directly linked to poverty, according to the World Bank.

The United Nations has defined the goals of financial inclusion as:

- Access to a full range of financial services, including savings services, payment and transfer services, credit and insurance, at affordable costs for all households.
- Building strong and secure organizations governed by clear regulation and industry standards.
- Financial and institutional stability (ensuring continuity and certainty of investment).
- Ensuring choice for customers through healthy competition.

Since 2011, more than 1.2 billion people have gained access to financial services – giving them the opportunity to change their lives. UNSGSA and the United Nations worked to ensure financial inclusion following the adoption of the Sustainable Development Goals (SDGs) in 2015. As a result, financial inclusion is now expressed as a key goal (at number seven) among the 17 goals to meet the SDGs, and the General Assembly passed a resolution emphasizing its importance. More than 50 countries have adopted financial inclusion plans and strategies; The major global regulators—standard-setting bodies (SSBs)—now hold regular meetings aimed at addressing financial inclusion.

Financial Inclusion in the Indian Context:

Definition of Financial Inclusion: “The process of ensuring timely availability of financial services and adequate credit to vulnerable groups such as weaker sections and low-income groups at affordable costs”.

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

According to the National Strategy Document, the vision of the Financial Inclusion Strategy is to make financial services available, accessible and affordable to all citizens in a secure and transparent manner to support inclusive and resilient multi-stakeholder led development.

History of Financial Inclusion in India:

Since the 1950s, one of the goals of the Indian government has been to extend financial services to the unreached. The nationalization of banks, which lasted from the mid-1950s to the late 1960s, was in fact a result of these initiatives. Banking facilities were brought to previously deprived areas of the country. Bank "branches" in rural areas increased credit to agriculture and other unserved rural populations, and Indira Gandhi touted this as a strategy to "accelerate development" and eliminate poverty and unemployment. The Lead Bank Scheme followed nationalization as a way of coordinating banks and credit institutions to ensure that the credit needs of rural areas were met. In 1975, the Government of India established Regional Rural Banks (RRBs) specifically to meet the demand of the rural economy and the number of RRBs has increased significantly over the years. By the early 2000s, the term 'financial inclusion' began to be used in the Indian context. The Khan Commission, created by the Reserve Bank of India (RBI) in 2004, examined the state of financial inclusion in India and made several recommendations. RBI Governor Y. Venugopal Reddy also expressed concern about the exclusion of millions of people from the formal financial system and urged banks to embed financial inclusion in their annual and medium-term policy statements. Mangalam, Puducherry became the first village in India where banking facilities were provided to all households. States or Union Territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. However, illiteracy, low income savings and lack of bank branches in rural areas continue to hinder financial inclusion in many states. Pradhan Mantri Jan Dhan Yojana (PMJDY) and its linkage with Aadhaar and mobile phones created the JAM Trinity, which was a game changer not only for welfare schemes under Direct Benefit Transfer (DBT) but also for financial inclusion. However, the growth of traditional brick and mortar banking branches has been slow, while banking services through BCs have gained more prominence over the years.

At the end of March 2021, BC outlets constituted more than 95% of the total banking outlets in villages, which has led to a sharp increase in the number of BCs in villages with a population of more than 2000. Microfinance involves the extension of small loans and other financial services to low-income individuals or groups who otherwise lack access to formal financial services. The Self-Help Group-Bank Linkage Program (SHG-BLP) promoted by the National Bank for Agriculture and Rural Development (NABARD) has emerged as the world's largest microfinance program in terms of number of beneficiaries and micro credit extended. The number of MSME accounts declined for all SSBs during 2020-21, mainly driven by PVBs and FBs. The total MSME credit outstanding of public sector banks has seen a steady decline since 2017-18, with the share of PV also increasing. Trade Receivables Discounting System (TRADES) was introduced by the Reserve Bank in 2017 to facilitate financial inclusion of MSMEs. It is an electronic platform for financing trade receivables of MSMEs from large corporates, PSUs and Government Department with Banks/NBFCs through competitive bidding process. During 2020-21, the number of invoices uploaded and financed through the platform increased by over 62%, with the success rate increasing to 91.3% from 90.2% last year.

In July 2014, the PJ Nayak panel recommended privatization of state-run banks to reduce this burden on the government. The RBI has said that the merger of public sector banks, if successful, will help in reviving India's banking system, creating global, strong and well-funded banking majors.

As part of efforts to improve banking access across all geographies, banking access at the sub-national level is skewed towards the western, southern and northern regions in terms of share in credit, deposits and number of branches. The average population served by bank branches is significantly higher in the eastern, central and north-eastern regions compared to other parts of the country. The objective of the merger was also to provide affordable service to all the deprived sections of the society.

Table showing progress of financial inclusion program in India:

Particulars	March 2010	December 2020	December2021
Banking Outlets in Villages	**67694**	**1253177**	**1900523**
Urban Areas covered by Banking Correspondents	**447**	**324507**	**1412529**
Total Number of BSBD A/c (In Lacs)	**735**	**6384**	**6631**
Total Amount in BSBD A/c (In Crores)	**5500**	**199503**	**213646**
BSBD A/c Having Overdraft Facility (In Lacs)	**2**	**59**	**64**
ओडी सुविधा वाले बीएसबीडी खातों की कुल राशि (करोड़)	**10**	**505**	**556**
Total KCC (In Lacs)	**240**	**490**	**473**
Total KCC Amount (In crores)	**124000**	**679064**	**693596**
Total GCC (In Lacs)	**10**	**198**	**87**
Total GCC Amount (In Crores)	**3500**	**175053**	**199145**

The National Strategy for Financial Inclusion 2019-24 (NSFI) and the National Strategy for Financial Education 2020-25 (NSFE) were released by the Reserve Bank in January 2020 and August 2020, respectively, to accelerate the process of financial inclusion. A road map was provided. and promoting financial literacy and consumer protection. The Reserve Bank introduced the Financial Inclusion Index (FI Index) in August 2021 to monitor the progress of policy initiatives to promote financial inclusion.

The progress of financial inclusion in India has two distinct pillars: (a). More participation of women and (b) advances in digital technology (fintech). As of December 15, 2021, 24.54 crore bank accounts were opened for women beneficiaries under PMJDY, which is 55.6 percent of the total account holders under the scheme.

<u>Following are the strategic objectives/pillars of the National Strategy for Financial Inclusion:</u>

1. Universal access to financial services: Offering affordable and accessible banking services ensures that the unbanked and underbanked can participate in the formal financial system. Offering no-frills savings accounts and low-cost transaction accounts enables financial inclusion at the grassroots level. According to Women's World Banking, women are 31% more likely than men to have inactive bank accounts. By focusing on gender-specific financial inclusion initiatives, financial inclusion can help empower women economically and reduce the gender gap in financial services. These efforts include customized financial products, financial literacy programs and initiatives to promote women entrepreneurship. Traditional credit scoring metrics may alienate or discriminate against people with limited credit histories. Financial inclusion seeks to explore alternative credit scoring methods that can increase credit access to people with limited credit histories while considering non-traditional data sources. Targeting the delivery of financial services in hitherto inaccessible areas, it set the following goals:

- Access to remote areas: The first objective is to provide access to formal financial services to every village within a 5 km radius/hamlet of 500 households in hilly areas by March 2020.
- Less cash society: To create necessary infrastructure in all Tier II to Tier VI centers to move towards a less cash society by March 2022.
- Every adult can access financial services through mobile devices: To encourage financial service providers to provide virtual modes including mobile apps so that every adult can access a financial service provider through a mobile device by March 2024.
- • Rapidly move to digital and consent-based architecture for customer onboarding by March 2024.

There will be complete integration of the financial sector and basic service providers for better delivery of financial services and products. Apart from traditional banking outlets; Co-operative banks, payments banks, small finance banks and other non-bank institutions like fertilizer shops, fair price shops, offices of local government bodies, panchayats, common service centres, educational institutions etc. are to be included in this. Better networking of bank branches, BC outlets, micro ATMs, POS terminals and stable connectivity with electricity etc. is to be ensured.

2. Providing a basic bouquet of financial services: RBI aims to provide some basic services to every adult. Every interested and eligible adult should be provided with a basic bouquet of financial services that includes:

- A basic savings bank deposit account,
- credit,
- A micro life and non-life insurance product,
- A pension product and
- A suitable investment product.

Under the strategy, an action plan to provide a bouquet of services has also been prepared.

3. Access to livelihood and skill development will be provided to new account holders: All relevant details related to ongoing skill development and livelihood generation programs through RSETI, NRLM, NULM, PMKVY will be provided to new account holders at the time of account opening.

4 Financial Literacy and Education: Financial education and financial literacy refers to equipping the general public with the necessary financial knowledge and skills. Audio-videos/booklets will be made available with financial literacy modules to specific target audiences (e.g. children, young adults, women, new employees/entrepreneurs, family persons, retirees, retirees, etc.). The activities of Center for Financial Literacy (CFL) are to be expanded to every block of the country by March 2024.

5. Customer Protection and Grievance Redressal: Financial Inclusion in Banking, this also includes protecting customers within the business. Financial inclusion seeks to implement safeguards to protect the interests of economically weaker individuals. For this, customers will be made aware of the options available to resolve their complaints. For the storage and sharing of customer's biometric and demographic data, adequate security measures are to be ensured to protect the customer's right to privacy.

6. Effective coordination among various stakeholders: There is a need for a focused and sustained coordination among key stakeholders. Government, financial services regulators, financial service providers, telecom services regulators, skill training institutions etc. should ensure that customers are able to access services in a sustainable manner.

<u>Financial Inclusion Efforts in India:</u>

1.Financial Inclusion Schemes in India: The Government of India has launched many special schemes aimed at financial inclusion. The objective of these schemes is to provide social and economic security to the exploited and resource-less section of the society. After much research by many financial experts and policy makers, the government has launched these schemes keeping financial inclusion in mind. These schemes have been launched in different years. Let us take a list of financial inclusion schemes in the country:

- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Atal Pension Yojana (APY)
- Pradhan Mantri Vaya Vandana Yojana (PMVVY)
- Stand Up India Scheme
- Pradhan Mantri Mudra Yojana (PMMY)
- Pradhan Mantri Suraksha Bima Yojana (PMSBY)
- Sukanya Samriddhi Yojana
- Jeevan Suraksha Bandhan Yojana
- Credit Enhancement Guarantee Scheme (CEGS) for Scheduled Castes (SC)
- Venture Capital Fund for Scheduled Castes under Social Sector Initiatives
- Senior Pension Insurance Scheme (VPBY)

2.Financial Inclusion through Digital Payment Systems: The Government of India has launched several electronic wallet systems through smartphone apps such as Bharat Interface for Money (BHIM), Aadhaar Pay and many more!

Many digital financial products offer attractive offers and discounts when people use these tools. These are very helpful for the economically deprived sections of the society. People get all products and services at competitive prices

3.Impact of demonetization on financial inclusion:

With the implementation of the demonetization process in India since the year 2016, the need for digital financial services has increased. The ban on the use of Rs 500 and Rs 1,000 notes led to increased demand for alternative methods of payment for goods and services which still exists. Therefore the number of digital wallets in the country increased on a large scale. The Indian government aims to make the country cashless and hence, the high number of digital wallets is helping the government to achieve its goal. Additionally, the transaction limit for electronic wallets was increased to Rs 20,000. This is great news for both users and e-wallet companies.

Many people from the lower-income group also started using electronic wallet options as they had no other option. It is true that many of them had to struggle initially because of the demonetization process. However, the introduction of many digital banking and financial services has proved to be a huge boon for all economic sections of the society.

4.Financial Inclusion Programs conducted by the Reserve Bank of India (RBI): The Reserve Bank of India works on special programs and schemes to effectively carry out financial inclusion in the country. It implements a strategy led by commercial banks to smoothly implement financial inclusion. The rules of the Central Bank of India are also strict which every bank has to follow.

Let us take a look at some of the programs launched by RBI to achieve its goals:

• RBI directed every bank to maintain Basic Savings Bank Deposit (BDSD) accounts for economically weaker sections of the society. These are no-frills accounts where account holders are not required to maintain any minimum balance or minimum deposit. These account holders can withdraw cash from any ATM or bank branch. They should also be given the opportunity to use electronic payment channels to receive and transfer money to others.

• RBI also asked banks to simplify Know Your Customer (KYC) rules for the less fortunate in the society. There are many people in rural areas who are unable to open a bank account due to strict KYC norms. Therefore, the RBI wants banks to simplify KYC requirements, especially if a low-income individual is interested in opening a bank account with an amount of less than Rs 50,000. This minimum KYC norms compliance is not required if the total credit in the accounts does not go above Rs 1 lakh for 1 year. Recently, banks have been asked to accept Aadhaar card as identity proof as well as address proof as most of the people from low income group have got Aadhaar card made in their name.

• Keeping in mind the shortage of bank branches in rural areas, RBI has asked all the banking institutions to open more and more branches in villages across the country to provide good banking services to the villagers. There are many remote villages where there are neither banks nor good transport services. It is very difficult for residents of these areas to travel to far-flung bank branches to avail banking services. So, with the mandatory rule of RBI, banks are distributing the ratio of banks in villages and cities to maintain the balance.

Importance of financial inclusion in economic growth: Financial inclusion is increasingly being considered as a key factor for economic growth and poverty alleviation. Access of the common man to banking services (formal finance) can promote employment creation, reduce the sensitivity of the economy to economic shocks and increase investment.

The importance of financial inclusion is reflected in the fact that to achieve the goal of financial inclusion in a coordinated and time bound manner, a National Strategy for Financial Inclusion (NSFI) has been formulated. NSFI has been prepared by RBI following the recommendations of the Financial Inclusion Advisory Committee. In addition to the recommendations of the Committee, inputs were received from several stakeholders including the Government of India, financial sector regulators such as Securities Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Indian Funds Regulatory and Development Authority (PFRDA). Were. Financial inclusion comprehensively enhances the financial system of the country. It strengthens the availability of economic resources. Most importantly, it hardens the concept of savings among the poor people living in both urban and rural areas. In this way, it continuously contributes to the progress of the economy.

They are exploited by rich landlords as well as unlicensed moneylenders. This serious situation can be changed with the help of financial inclusion. Financial inclusion involves involving poor people in the formal banking industry with the intention of securing minimum finance for future purposes. There are many families (farmers or artisans) who do not have proper facilities to save the money earned after hard work.

There are very broad and common reasons why financial inclusion is important for economic growth. Some major reasons include:

• Financial inclusion reduces poverty and inequality: Financial inclusion provides opportunities for marginalized and low-income individuals to access formal financial services such as savings, credit and insurance. By empowering them to manage their finances and invest in income-generating activities, financial inclusion can help lift people out of poverty and reduce economic inequalities.

• Financial inclusion promotes economic growth: A common argument is that when more people have access to financial services, they can actively participate in the economy. Increasing financial inclusion leads to higher levels of savings, investment, and entrepreneurship, thereby promoting economic growth and stability in both local communities and national economies.

• Financial inclusion promotes small businesses: Small businesses often face challenges in obtaining loans from traditional banking sources. Financial inclusion through innovative lending models and online platforms can provide entrepreneurs with the funds they need to grow their businesses.

• Financial inclusion empowers otherwise marginalized demographics: For example, financial inclusion initiatives targeted at women can promote gender equality and women's economic empowerment. By providing access to financial services, women gain greater control over their finances, which can lead to improved educational opportunities, better health outcomes, and increased autonomy within households.

• Financial inclusion promotes innovation: Financial inclusion promotes innovation in the financial sector, leading to the development of new technologies and fintech solutions that meet the needs of underserved populations. These innovations can benefit the broader financial ecosystem and drive advancements in financial services.

• Financial inclusion can promote digital inclusion: Since technology plays a key role in financial inclusion, promoting access to digital financial services also contributes to digital inclusion, ensuring that more people can participate in the digital economy.

Although evidence on the relationship between financial inclusion and bank stability is limited. The banking literature points to several potential areas through which financial inclusion may affect banking stability. A recent study in the journal Economic Behavior and Organization reports a strong positive relationship between financial inclusion and bank stability.

The authors point out that this positive association is more pronounced with banks that have higher retail deposit fund shares and lower marginal costs of providing banking services; And also with those who work in countries with strong institutional quality.

Research results on the effectiveness of financial inclusion programs in improving economic, social, behavioral and gender-related outcomes in low- and middle-income countries have been favorable, and programs to improve access to financial services often have large impacts on incomes.