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Financial Exclusion In India – A Review

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Abstract: Financial inclusion means delivery of financial services at affordable cost to the disadvantaged and low-income group of people who are so for excluded from it. The term financial exclusion explained by Rangarajan committee as there is growing divide with an increased range of financial options for a segment of high- and middle-income population and a significant large section of the population who lack access to even the most basic banking services. Financial exclusion includes no savings and no insurance. The G20 made a commitment to adopt financial inclusion and exclusion as a major support towards the achievement of it 2030. Agenda for sustainable development of all member countries. This study investigated how the financial exclusion compare inclusive drive of development of economy using secondary data sources from articles and bank reports. This paper emphasis on issues and provides solutions that sustain and stable financial system.

Key Words – Financial Exclusion, Financial Inclusion, Financial Product and Services & Financial Institutions.

I. Introduction

'FINANCIAL EXCLUSION' is the term which used in different ways, in the finance industry about the financial services, to explain the concept of detailing the inability or inaccessible to majority of the public. This can be defined via the financial inclusion: "A state in which all people have access to appropriate, desired financial products and services in order to manage their money effectively". In other words, 'Financial Exclusion' means the inability to access necessary financial services in an appropriate form.

This can be described by when the literacy is better about the finance and financial capability by the public or consumers. Financially excluded people typically exhibit one or more of the following characteristics:

- No bank accounts and related financial services that accompanied with this.
- When people totally relay on the financiers who lend at doorstep and pawnbrokers.
- People with limited or no knowledge over the key financial products such as insurance, savings products and pensions.

Those who are unable to access basic financial services pay more to manage their money, find it difficult to plan for the future and are more likely to become over-indebted. In the words of the Treasury Select Committee: Too many people cannot gain access to appropriate financial products and services at present: they struggle to obtain affordable credit or helpful financial advice and face barriers in opening and operating bank accounts. Financial exclusion blights the lives of many millions of people; it increases the costs they bear for basic services; it makes them vulnerable to illegal or high-cost lending; it reinforces social exclusion.

LITERATURE REVIEW

Based on the data, this paper suggests strategies that can help nations with low and high financial stability maintain and boost employment rates. This could include policies that encourage small and medium-sized firms (SMEs), invest in infrastructure, and give workers with skill training. In order to fulfill its 2030 Agenda for Sustainable Development, the G20 has committed to making financial inclusion a top priority. Bringing persons in the informal sector into the mainstream financial system can help to achieve the sustainable development goals of providing jobs, alleviating hunger, and reducing poverty. This study analyzed how financial exclusion hinders inclusive growth in 27 Sub-Saharan African nations over a 10-year period (2007-2017) using secondary data from the World Bank database. To evaluate the short panel data received from the World Bank database, Arellano and Bond (1991) employed the Granger Error Correction Method (ECM) with General Methods of Moments (GMM). The results of the ECM test revealed evidence of a long-run link between financial inclusion and exclusion (as measured by unemployment). However, for all three groups of countries tested (low, moderate, and high financial stability), there is an insignificant but positive association between the two variables in the short run. This suggests that, regardless of the country's financial health, there is no association between financial inclusion and exclusion in the short run. However, the analysis discovered that financial exclusion had a negative long-run multiplier impact on financial inclusion in nations with moderate financial stability. This suggests that a reduction in financial exclusion will result in an increase in financial inclusion over time, with the effect being stronger in countries with moderate financial stability. (Uzoma B. Achugamonu, Kehinde A. Adetiloye, Esther O. Adegbite, Abiola A. Babajide &Francis A. Akintola, 2020).

In India, over 65% of the population lives in rural areas, where many regions lack access to banking services, resulting in financial exclusion. The topic of financial inclusion has recently acquired attention and has become a fundamental focus of the government's social programs. Surprisingly, India is on track to become the world's fourth-largest economy by 2025, with an annual GDP growth rate of 7-8%. However, just 34% of the population has access to the formal banking system, leaving a sizable minority out. With nearly 190 million households facing financial exclusion, India ranks second in the world. Low income and a lack of closeness to financial service providers are two factors that make it difficult for many people to enter the formal financial sector. Furthermore, persons who are financially excluded frequently lack a thorough understanding of the available financial services and find formal channels to be burdensome and time-consuming. Despite the Government of India's efforts to address the problem and provide banking services to the unbanked, long-term success remains elusive. According to research, while some financially excluded individuals are temporarily admitted to the banking system, their precarious livelihoods frequently lead to repeated exclusion. This is primarily due to the scarcity of risk management and vulnerability reduction solutions geared toward economically disadvantaged groups of society, which could help to establish strong safety nets and permit diversified livelihood pursuits. As a result, this article focuses on investigating the core reasons of financial exclusion and underlines the importance of revisiting banking tactics in order to effectively reach the unbanked population. It attempts to create long-term systems that ensure these individuals' continuing financial inclusion, building economic empowerment and resilience in neglected areas. (Sanjay Karmakar, 2019)

The economic prosperity of rural India is dependent on connecting remote communities to local and global supply chains. However, rural Indians are unable to participate in these supply networks due to high rates of financial exclusion. We conduct a literature assessment on financial inclusion, adoption, and blockchain in India and suggest that blockchain technologies have the ability to overcome many of the barriers to financial inclusion. To accomplish so, we must first understand technology adoption in India. We create a study agenda to help us understand the causes, trends, and results of blockchain adoption in rural India. Our study contributes to practice by exploring how blockchain might reduce financial exclusion in rural India, laying the groundwork for rural Indians to connect to global supply chain networks. Blockchain technology has the ability to transform financial inclusion in rural India by overcoming several of the present barriers, including geographical access, high costs, ineffective banking products, and financial illiteracy. Understanding blockchain technology usage in India allows us to design methods to connect rural Indians to global supply chain networks and enhance rural economic growth. (S. Schuetz, V. Venkatesh, 2020)

This paper examines the impact of fintech on financial inclusion is investigated in this research. We find that fintech is more closely connected with digital financial inclusion than traditional measures of financial inclusion using global data and new fintech indicators. We also discovered that while fintech has helped to close the digital access gap between rural and high-income individuals, it has had no influence on the gender digital divide. This shows that fintech alone may not be enough to close the gender gap in financial services access. Policymakers must adopt focused programs to directly address the gender gap and shift attitudes and social norms across demographics. Fintech has an impact on financial inclusion, but it is insufficient to close the gender gap. Policymakers must adopt focused programs to directly address the gender gap and shift attitudes and social norms across demographics. (Yoke Wang Tok & Dyna Heng, 2022)

In this article the author claims, financial exclusion is a serious issue in India, and income-related inequality in financial inclusion is equally considerable. However, it is discovered that increased access to banking services can help to lessen financial exclusion, particularly among the poor. The study's findings suggest that policymakers in India should prioritize expanding access to financial services in all regions, particularly rural areas. They should also endeavor to address other socioeconomic and demographic variables that lead to financial exclusion, such as illiteracy and lack of financial literacy. Using a representative household survey connected to state-level characteristics, this study investigates income-related inequalities in financial inclusion in India. It discovers: Financial exclusion is widespread among households of all income levels. Income-related disparity in financial inclusion varies greatly across subnational regions, but is generally substantial. Income inequality in financial inclusion is not the same as income inequality. Increased access to banking services promotes financial inclusion, particularly among the poor. The study also compares the effects of various socioeconomic and demographic features of households on their inclination to use formal financial services. (Rama Pal and Rupayan Pal, 2012)

RESEARCH OBJECTIVES

1. To examine the financial exclusion in India in recent years.

2. To evaluate the impacts, causes & remedy's relating to the financial exclusions in the Indian society.

SCOPE OF THE STUDY & LIMITATIONS

The present study covers financial exclusion in India in recent years. In this article the reasons for financial exclusion and measures to overcome via various ways and methods. It's to investigate the involvement of various agencies, Banking, intervention of government agencies and other possible avenues.

RESEARCH METHODOLOGY

Secondary research was conducted to study the current scenario of financial exclusion in India based on the online or web-based reports from Reserve Bank of India, Banking institutions, blogs and research papers. This paper first offers conceptual discussion on the much-debated topic financial exclusion and then systematically offers an analysis of the existing policies pertaining to financial inclusion. The author also proposes additional strategies for banks and NBFC's, which seeks to overcome the limitations of existing strategies and also to penetrate deeply into unbanked areas.

IV. RESULTS AND DISCUSSION

Reasons of Financial Exclusions:

The following factors can be identified as the root cause of financial exclusion. First, there has been an unusual fall in financial retail stores in impoverished communities. Second, physical access issues among persons living in impoverished communities, exacerbated by low levels of vehicle ownership, exacerbated the situation. Other angles might be taken on the issue of financial isolation. Inadequate access to financial services for a variety of causes, including: In rural locations, financial services are inefficient and inadequate. There are no safe deposit boxes, savings accounts, or insurance services. These financial services are typically provided by unprofessional money lenders who can be found in every town. Low awareness and a high level of information access restrictions, particularly for rural women.

Poor individuals are excluded from financial institutions for a variety of reasons, including:

- High operation costs: Running branches in rural areas and providing services to low-income customers can be costly.
- Big client size and low transaction volume: It may be challenging for financial institutions to handle a big number of poor consumers with modest, frequent transactions.
- In both rural and urban areas, there is a lack of official financial services: This is due to a combination of the aforementioned reasons.

In addition to these considerations, poor people frequently experience the following barriers to financial services:

- Credit is expensive: The interest rates on loans for the poor are frequently extremely high.
- Poor people may be compelled to accept unjust loan terms, such as exorbitant fees and penalties, as a result of exploitative lending practices.
- Inadequate social security schemes: Poor people may lack access to insurance or pension plans.
- Low asset and income levels: Poor people may lack the collateral required to get loans as well as the income required to afford financial services.
- Overall, financial exclusion is a multifaceted problem with various causes. It is critical to address these issues so that everyone has access to the financial services they require to enhance their life.

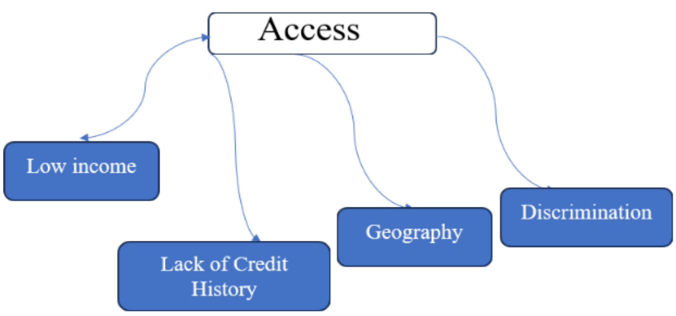
Addressing Financial Exclusion Issues in India. It is critical to overcome the hurdles associated with achieving financial inclusion in India. These difficulties are twofold:

1. Geographical Access Difficulty: A sizable rural population lives in India's vast environment. However, one key barrier to financial inclusion in these rural areas is the lack of geographical access to financial institutions. Long distances and weak infrastructure impede physical access to banks, with only 5% of the rural population having access to a commercial bank branch in their area. As a result of these constraints, just 23% of rural Indians use ATMs on a regular basis. This geographical access difficulty is prevalent throughout all Indian states, making it a major barrier to financial inclusion on a national scale.
2. Cost Challenge: In 2022, the average rural Indian household has four members and survives on a combined income of roughly 8,000 Indian Rupees (INR), or about $100 USD. This corresponds to a per-person income of less than $1 USD. The stark reality of low financial resources highlights the cost challenge that rural inhabitants face. Rural residents must make ends meet with relatively limited financial resources due to modest earnings, providing a tremendous barrier to accessing and utilizing financial services.

Consequences of Financial Exclusion

Lack	**Coping Practice**	**Consequences**
Bank accounts	Store money at home	Risk of theft or loss.
Access to credit	Use savings or borrow money fro friends and family	Impedes ability to provide guarantees and cre history. Risk of not having access to needed financ resources. Risk for lenders.
Insurance	Use savings or borrow money fro friends and family	Impedes opportunities for entrepreneurial ventu Risk of not having access to needed financial resources R for lenders.

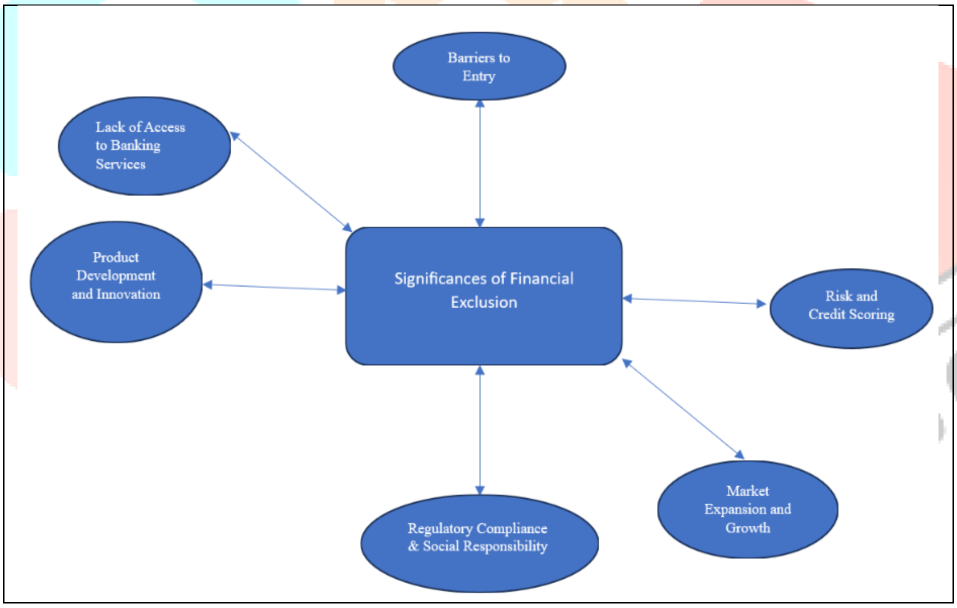
Financial exclusion from the banks & finance industry perspective refers to the lack of access to financial products and services for certain individuals and businesses. This can be due to a variety of factors, including:



- Low income: Banks and other financial institutions may view low-income individuals as a higher risk, and therefore may be less likely to offer them loans or other financial products.
- Lack of credit history: Individuals without a credit history may also find it difficult to qualify for loans or other financial products. This is because banks and other financial institutions use credit history to assess an individual's risk of defaulting on a loan.
- Geography: Individuals who live in rural areas or in underserved communities may also have difficulty accessing financial products and services. This is because banks and other financial institutions may have fewer branches in these areas.
- Discrimination: Some individuals may also be excluded from the financial system due to discrimination. For example, banks and other financial institutions may be less likely to offer loans to individuals of color, women, or people with disabilities.

Significances of Financial Exclusion –

Financial exclusion can have a number of negative consequences for individuals and businesses. For example, individuals without access to financial products and services may have difficulty saving money, paying bills, or starting a business. Businesses without access to financial products and services may have difficulty growing or creating jobs.



1. Lack of Access to Banking Services:
- According to the finance industry, financial exclusion represents a considerable section of the population that lacks access to fundamental banking services. Savings accounts, checking accounts, and basic payment services are examples of such services.
- Financial exclusion may be viewed by banks as a missed chance to broaden their customer base and deliver financial goods to a larger market.
2. Barriers to Entry:
- In India, a variety of hurdles contribute to financial exclusion. Geographic limits, a lack of documents or identification, low-income levels, and a lack of awareness about financial services are examples of these impediments.
- The finance industry may view these hurdles as obstacles to entering unexplored markets and may need to invest in new solutions to overcome them.
3. Regulatory Compliance and Social Responsibility:
- Financial inclusion is promoted as a fundamental policy goal by regulatory bodies in India, such as the Reserve Bank of India (RBI). Banks and financial organizations are frequently mandated to reach certain criteria for providing banking services to underserved and unbanked groups.

- Financial inclusion is both a regulatory mandate and a social responsibility for the finance industry from a regulatory standpoint.
4. Product Development and Innovation:
- Addressing financial exclusion can spur innovation in the creation of financial products. Microfinance, mobile banking, and low-cost savings accounts are examples of customized goods and services that the finance industry may need to develop to meet the specific needs of underprivileged people.
- Concentrating on these breakthroughs can result in the creation of new markets and client segments.
5. Risk and Credit Scoring:
- Due to insufficient credit history and collateral, financial institutions may regard consumers from financially excluded categories as having greater risk profiles.
- The banking industry faces both a difficulty and an opportunity in developing appropriate credit scoring models and risk assessment tools for these populations.
6. Market Expansion and Growth:
- Financial institutions can benefit from market expansion and growth by embracing financial inclusion. Banks can extend their customer base and potentially increase revenue by reaching out to unexplored sectors of the population.
- Financial institutions that address financial exclusion proactively can position themselves as responsible and inclusive.

Solutions to Financial Exclusion –

The banks & finance are the key players with the help of modern technology to address financial exclusion -

- Offering affordable and accessible financial products and services. This may include offering basic bank accounts with low fees, as well as small business loans and other financial products that are tailored to the needs of low-income individuals and businesses.
- Investing in underserved communities. Banks and other financial institutions can open branches in underserved communities and offer financial education programs to residents.
- Partnering with non-profit organizations. Banks and other financial institutions can partner with non-profit organizations that provide financial services to low-income individuals and businesses.

Here are some specific examples of how the banks & finance industry can help to address financial exclusion:

- Offer basic bank accounts with low fees. This would make it easier for low-income individuals to open a bank account and start saving money.
- Provide small business loans. This would help low-income individuals and businesses to start and grow their businesses.
- Invest in underserved communities. Banks and other financial institutions can open branches in underserved communities and offer financial education programs to residents.
- Partner with non-profit organizations. Banks and other financial institutions can partner with non-profit organizations that provide financial services to low-income individuals and businesses.

In addition, governments can play a role in addressing financial exclusion by enacting policies that encourage banks and other financial institutions to serve low-income individuals and businesses. Governments can also provide financial assistance to non-profit organizations that provide financial services to underserved populations.

Access and Use of Financial Services Via Banks in India over the period 2013 – 2022

By using modern technologies, banks and finance institutions play a critical role in eliminating financial exclusion. They are able to:

- Create novel products and services to meet the needs of the underserved. Mobile banking and digital wallets, for example, make it easier for people who don't have access to traditional bank locations to manage their money. (PwC, n.d.)
- Reduce the cost of financial services for low-income customers by providing low-cost or no-fee accounts.

- Collaborate with other groups to reach out to those who are underserved. Non-profit partnerships help low-income areas to receive financial education and counseling.
- Use technology to improve the accessibility and convenience of financial services. Chatbots enabled by artificial intelligence can answer client questions and assist with transactions.
- Here are some examples of how banks and financial organizations use contemporary technologies to combat financial exclusion:
- Mobile banking: Allowing people to access their bank accounts and make transactions using their smartphones, which is especially useful for people who live in remote areas or don't have access to traditional bank branches.
- Digital wallets: Allowing safe electronic money storage and payments, they provide a convenient option for people who do not have bank accounts or credit cards.
- Branchless banking: Providing access to financial services through third-party intermediaries such as retailers or mobile money carriers, hence removing the need for physical visits to bank branches.
- Financial education: Using technology to provide marginalized groups with financial education and advice. (PwC, n.d.)

Below are the growth of tech and innovation related growth over past decade -

Indicator	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Automated Teller Machines (ATMs) per 100,000 adults	12.87	17.80	19.7	21.24	22	21.65	20.95	21.5	21.44	21.44
Branches of commercial banks per 100,000 adults	11.85	12.87	13.54	14.06	14.51	14.5	14.58	14.74	14.58	14.41
Deposit accounts with commercial banks per 1,000 adults	495	570	645	720	795	870	945	1,020	1,095	1,170
Loan accounts with commercial banks per 1,000 adults	70.7	78.7	87.2	97.3	109.3	122.9	136.7	155.3	175.7	199.9
Mobile money transactions number per 1,000 adults	11	21	45	102	218	422	738	1,163	1,438	1,600

With the major steps involved government, banks and institution with the help of technology driven efforts can make the effort to eradicate the situation of financial exclusion and also gives better access to the untouched society.

CONCLUSION

In view of the finding summarized above and based on the objective investigated this study concludes financial exclusion has multiple impact on growth of Indian Economy. Thus, we conclude in respected moderately state financial system that financial exclusion, preceded by unemployment affects financial inclusion especially in moderately stable financial system. We wish to highlights the unmet financial needs of a significant portion of the population, it also underscores the potential for growth, innovation, and social responsibility in addressing these needs. The finance industry can play a vital role in promoting financial inclusion by developing inclusive products, expanding their reach, and collaborating with regulatory authorities and other stakeholders. Also based on the above observation, wish to highlight the recommendation that government should create enabling environment and provide enough employment opportunity to access the financial assets use financial services for better stable financial system.

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