ISBN: 978-81-978152-2-5

6. Financial Inclusion –An overview

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Abstract:

Financial inclusion is a method of offering banking and financial services to individuals regardless of their income level. It mainly focuses on providing financial services to the economically underprivileged. Financial inclusion inculcates saving habits and enhances investment. This further leads to greater stability, increased entrepreneurship, and overall economic growth. This chapter provides a comprehensive overview of financial inclusion in India, covering its objectives, scope, history, importance and challenges. It throws light on key government initiatives aimed at boosting financial inclusion in India.

Keywords:

Banking, Financial Services, Financial Inclusion, Promotes Entrepreneurship, Cyber Security.

Definition:

Financial Inclusion is the process of ensuring access to appropriate financial products and Services needed by all sections of the society in general and vulnerable groups such as weaker Sections and low-income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players.

6.1 Objectives of Financial Inclusion:

- Financial inclusion intends to assist individuals in obtaining financial services at less costs such as deposits, fund transfer services, loans, insurance, payment services, etc.
- To ensure availability of timely, adequate and transparent credit from formal banking channels.
- To encourage savings, investment and thereby, spur the processes of economic growth.
- It aims to establish proper financial institutions to meet the needs of the poor people even in remote areas.
- The aim of financial inclusion is delivery of financial services to low-income groups with the provision of equal opportunities.

- Its main goal is to improve the living conditions of the poor in society so they may become more independent and knowledgeable enough to make wiser financial decisions.
- Financial inclusion also intends to establish numerous institutions to assure affordable financial assistance to all at minimal prices.
- Financial inclusion aims to increase awareness about the benefits of financial services among the economically disadvantaged segments of society.
- The process of financial inclusion works towards creating financial products that are suitable for the less fortunate people of the society.
- The aim of financial inclusion is to increase financial literacy.
- Financial inclusion aims to bring in digital financial solutions for the economically underprivileged people of the nation.
- It provides assistance to poor and underprivileged persons to receive government-approved documents that are required to open bank accounts or apply for a loan such as PAN, Aadhaar, Driver's License, or Electoral ID.

6.2 Scope of Financial Inclusion:

Financial inclusion can mean a lot of things. In general, financial inclusion may refer to but isn't necessarily limited to the following financial, economic, or entrepreneurial concepts.

1. **Financial Education and Literacy:** The term "financial literacy" describes programs and financial education that give people the fundamental knowledge and abilities they need to manage their finances. This gives individuals the ability to budget wisely, make well-informed decisions, and see the advantages of using official financial services rather than depending on unofficial or possibly predatory alternatives.
2. **Affordable and accessible financial services:** Enabling underprivileged or people residing in remote areas to access banking services at reasonable prices. This encourages financial saving and enforces financial security.
3. **Gender Disparities:** Financial inclusion focuses on economic empowerment of women through increasing their access to financial products such as opening their bank account through PMJDY, encouraging women’s entrepreneurship with the aim to decrease the gender gap in financial services.
4. **Digital Platform:** Financial inclusion eliminates the need for cash management and provides digital payment platforms. Such as Unified Payments Interface (UPI), Banking Cards, Mobile banking, PoS system.
5. **Access to Microfinance:** Delivering microfinance services to underprivileged groups, such as low-income people and small-scale entrepreneurs, is made easier by financial inclusion. These platforms provide small loans to borrowers who might not have access to traditional banking channels by using digital lending algorithms and alternative credit rating techniques.

6. **Alternative Credit Scoring:**financial inclusion offers alternative data sources for those without traditional credit records, such as social media activity, utility bill payments, and mobile phone usage, to determine creditworthiness and grant credit. Fintech companies make loans and other financial goods accessible to underprivileged people through the use of creative credit scoring models.

6.3 History of Financial Inclusion in India:

India has emerged as a pioneer in financial inclusion. The term "financial inclusion" has gained importance since the early 2000s, but in India it started in the early nineties with cooperative credit societies Act which was passed in 1904 with the objective to extend banking facilities on easy terms compared to money lenders who were well known to charge high rates of interest.

But it sped up with the nationalization of State Bank of India in 1955 and 14 private sector banks were nationalized in 1969 to serve the unbanked population, mainly weaker sections of society as well as rural areas.

Since 2005, the Government of India along with the Reserve Bank of India (RBI) and NABARD has been initiating a number of concerted measures to enhance financial inclusion in India. Such as the Self-Help Group-bank linkage programme, easing of 'Know-Your-Customer' (KYC) norms, electronic benefits transfer, use of mobile technology, opening 'no-frill accounts and emphasis on financial literacy, Kisan Credit Card and Aadhaar scheme. Even with sustained attempts, the penetration of banks was modest.

To ensure access to financial services, namely, basic savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner, the government launched Pradhan Mantri Jan-Dhan Yojana (PMJDY). To provide credit to small entrepreneurs, the government launched the MUDRA scheme in 2015.

6.4 Importance of Financial Inclusion in India:

1. **Filling Credit Gap** – Access to credit from the formal banking channels can fuel the enterprising spirit of the masses through filling credit gaps which can enhance income levels at the grassroots.
2. **Developing Saving Habit** – Low-income households have relatively fewer channels for inculcating the saving habit. This can help increase capital formation in the country and provide an economic boost.
3. **Ease of Access:** Easy access to banking to the rural masses such as cash receipt, cash payments, remittances, balance enquiry, and account statements can be accessed through biometric or face recognition.

4. **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.financial inclusion can help lift people out of poverty and reduce economic disparities.
5. **Promotes Entrepreneurship:** Financial inclusion through online platforms can provide entrepreneurs the much-needed capital they need to expand their enterprises.
6. **Promotes Economic Growth:** Increased financial inclusion leads to higher levels of savings, investment, and entrepreneurship, fostering economic growth and stability in both local communities and national economies.
7. **Foster Digital Inclusion:** Increasing access to digital financial services makes it possible for more people to engage in the digital economy.
8. **Reduce Cash Economy:** A major initiative of the government is to curb black money in circulation and cashless transactions s.a. UPI, AEPS, Debit Cards, Wallets etc. help reduce the cash in the economy as more and more cash travels through the financial ecosystem.

6.5 Challenges:

1. **Inactive Accounts:** Many accounts opened under PMJDY are not operational due to lack of funds.
2. **Lack of Financial Literacy -** The rural households do not have adequate financial literacy resulting in lack of awareness of many financial services provided by financial institutions.
3. **Need for Manpower Planning**– There is a requirement of sufficient technical skill development and training for banks and institutional staff.
4. **Technological Barriers -** On the operational side, despite the convenience offered by ATMs in providing banking services, the debit card penetration continued to be low with only 30 percent of deposit account holders having a debit card.
5. **Demand Side Factor -**Factors such as lower income or asset holdings, lack of awareness about the financial products, perceivably unaffordable products, high transaction costs, products which are not convenient, inflexible, and not customized to the rural sector income pattern are a major barrier for gaining access to the financial system.
6. **Costs and risks in using technology-** Costs in terms of increasing expenditure on IT deployment and risks in terms of monetary loss, data theft and breach of privacy are a concern. Thus, banks need to be extremely cognizant of such risks.
7. **Cyber Security-**Nearly 31 crore new accounts have been opened in previous 3 years under PMJDY and nearly 80 percent of these are first time users. This can be a threat to cyber security especially when.

Government initiatives promoting digital financial services through technology:

1. Pradhan Mantri Jan Dhan Yojana (PMJDY):

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, basic savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner. Under the scheme, a basic savings bank deposit (BSBD) account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet, by persons not having any other account.

The main aims of the scheme was to enhance financial literacy at village level, to provide at least one basic banking account for every household and enabling access to credit, insurance and pension facilities.

2. Pradhan Mantri Gramin Digital Saksharta Abhiyaan (PMGDISHA):

This scheme focuses on promoting digital literacy in rural areas. It aims to empower at least one person per household with the knowledge and skills required to access digital financial services. By providing the necessary training, PMGDISHA encourages the adoption of cashless transactions and online banking.

3. Digital India:

It is a flagship program of government of India with a vision to transform India in a digitally empowered society and knowledge economy.It mainly focuses on

- Digital empowerment of citizens.
- Governance and services on-demand.
- Digital infrastructure as a core advantage to every Indian citizen.

4. Aadhaar Enabled Payment System (AePS):

Aadhaar Enabled Payment System (AePS) allows the merchant to accept payment from a customer of any bank, by authenticating the customer's biometrics. It empowers a bank customer to use Aadhaar as his/her identity to access his/ her respective Aadhaar enabled bank account and perform basic banking transactions like cash deposit, cash withdrawal, Intrabank or interbank fund transfer, balance enquiry and obtain a mini statement through a Business Correspondent.

5. Unified Payments Interface (UPI):

Unified Payments Interface or UPI is a real-time payment system that powers:

- Multiple bank accounts (a/c) into a single mobile app,
- Merges different banking features,
- Seamless or impeccable fund routing & merchant payments into one hood.
- Inadequate infrastructure and non-accessibility of appropriate financial products, especially in rural areas.
- Low financial literacy
- As finance heavily relies on data, ensuring the privacy and security of individuals' data is vital.
- Improper internet connectivity results in significant barriers to fintech adoption.
- Lack of trust in banking institutions, and so on.

6. RBI initiatives:

RBI has launched many initiatives for promoting financial inclusion. This includes Priority Sector Lending (for providing a specified portion of the bank lending to few specific sectors), Opening of no-frills accounts (account with nil or very low minimum balance), Relaxation on know-your-customer (KYC) norms, Business correspondents (BCs) **(**as intermediaries for providing financial services) etc.

7. Digital Initiatives:

Initiatives like Digital India, payments banks and small finance banks have helped to improve the reach of formal financial services to economically disadvantaged sections. This will help to provide financial services to both the unbanked and the underbanked population, especially in rural/remote regions.

8. Self-Help Groups (SHGs):

India has effectively utilized SHGs to promote savings and provide microloans, empowering women and rural communities. This grassroots approach has gained international recognition.

6.6 Conclusion:

Financial inclusion has benefits for both the economy and society. Increased savings and investment can result from financial inclusion, and this can boost economic growth.

It fosters a saving culture, particularly among those with lower incomes, by providing legitimate credit options to the unbanked population, who would otherwise have to rely on unofficial sources of credit such as friends, family, and moneylenders.

It promotes entrepreneurship through availability of timely, adequate and transparent credit from formal banking channels. It will open the doors of formal remittance facilities to the low income and unbanked populace who, presently, are forced to use all kinds of informal and costly ways of sending money from one place to another.

Financial Inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries' bank accounts rather than through subsidizing products and making cash payments.

Thus, on the whole, Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

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