Presenting An Overview On Financial Inclusion In Indian Context: A Review Paper

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ABSTRACT

Purpose of the study- Primarily this study has been carried out to present the concept, known as ‘financial inclusion’. As financial inclusion has become a topic of global attraction since two decades. After the formal introduction of this undertaken concept, number of studies have been carried out focusing on various relevant associated aspects of financial inclusion. Present paper aims to sum up the findings and discussions of existing literature to present an overview on financial inclusion.

Methodology/ Research Approach- Present paper is a review paper which is completely descriptive in nature. Selected significantly relevant aspects of financial inclusion, Such as; its determinants, significance, barriers, corrective measures have been considered to review. Apart from that, journey of financial inclusion has been also presented in Indian context. Secondary data has been used to carry out the present study. Research articles and books primarily from ‘Google Scholar’ and from other platforms have been considered for review.

Findings of the study- Findings of the present study shows positive association between inclusive financing and almost all growth and development parameters. Age, gender, literacy, income have been observed as those demographic factors which extensively affect financial inclusion. Except these some individual, social, infrastructural and regulatory factors have been also identified. Along with identification of barriers to financial inclusion, such as; lack of financial literacy, lack of trust, lower income etc., corrective measures have been recognized.

Limitation of the study- Present study is limited to the review of existing available literature. This study is based on literature review method. Only Indian context has been considered.

Research Implication- As this present study sum up the conclusion and discussion of previous study, it becomes helpful to understand the concept in whole. Researchers can easily find the
research gap for future researches. Policymakers can understand the gist of financial inclusion while making policies.

**Keywords**- Financial inclusion, Inclusive growth

**INTRODUCTION**

People who have either no or limited access to financial services are referred as financially excluded (Collard, 2001). Financial inclusion is a state which creates an environment for common people to enable them to get access to the financial system of formal nature (Karmakar, 2011). According to the definition provided in the report, the process of enabling reach to financial services as well as timely and enough credit for low-income groups and vulnerable groups at a reasonable cost is referred to as financial inclusion (Ganesan, 2016). Inclusion in the financial system has been shown to have a multiplier effect, leading to an increase in overall economic production, a reduction in inequality and poverty, as well as increased gender equality and the empowerment of women (Jayasawal, 2018).

**PURPOSE OF THE STUDY**

Primarily this study has been carried out to present the concept, known as ‘financial inclusion’. As financial inclusion has become a topic of global attraction since two decades. After the formal introduction of this undertaken concept, number of studies have been carried out focusing on various relevant associated aspects of financial inclusion. Present paper aims to sum up the findings and discussions of existing literature to present an overview on financial inclusion.

**OBJECTIVES OF THE STUDY**

Present paper has following objectives-

1. To present an overview on financial inclusion
2. To discuss India’s strategy towards financial inclusion
3. To find out the research gap for future researches

**RESEARCH METHODOLOGY FOR THE STUDY**

Present paper is a review paper which is completely descriptive in nature. Selected significantly relevant aspects of financial inclusion, Such as; its determinants, significance, barriers, corrective measures have been considered to review. Apart from that, journey of financial inclusion has been also presented in Indian context. Secondary data has been undertaken to carry out the present study.

**FINANCIAL INCLUSION**
According to Thorat (2007), financial inclusion is defined as "the availability of adequate financial services by the banking segment that are in the nature of loans, insurance, savings, money transfers and payout facilities to the people who were earlier excluded."

According to Leeladhar (2006), "Financial inclusion is the process of providing the banking services to the huge segment of deprived people and low-income category of people at an affordable cost."

RBI defines Financial Inclusion as “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

**FACTORS AFFECTING FINANCIAL INCLUSION**

Dangi (2013) observed that user’s phycology, associated terms and conditions, income level, procedural formalities and literacy affect the degree of financial inclusion. Further significantly positive association between financial inclusion and literacy has been identified. Urbanization is also closely and positively correlated with inclusive financing. Except these positive associations, a negative association in rural area and financial inclusion has been found. Banking variable such as; NPA is also correlated negatively with inclusion of financial nature (Sarma, 2011). Further factors like; physical and electronic connectivity, income inequality, adult literacy, urbanization, information availability, telephone and internet usage (Sarma, 2011); age, education, financial literacy, distance, income, documentation, internet connectivity (Sanderson, 2018); level of financial innovations, poverty, stability of financial sector, state of the economy, financial literacy, regulatory framework have been identified as significant factors which affect financial inclusion (Ozili, 2021). Bozkurt (2018) has bifurcated factors which affect financial inclusion, into three categories, known as; political factors, social factors and banking factors. Technology, financial literacy, income, trust, reach, availability (et.al Kumar, 2020) and demographic characteristics of economies, good governance, high institutional quality, poverty (Park, 2015) have been also recognized as significant factors which immensely affect financial inclusion.

**INDICATORS OF FINANCIAL INCLUSION**

Access to account, saving and credit of formal nature and debit card ownership and its utilization has been undertaken as indicators or parameters of inclusive financing. Further age, income and education has been identified as important factors which affect savings and credit (Dar, 2020). Demographic characteristics like; income, age, education, gender etc. are relevant determinants to find gap of financial inclusion. Financial literacy has been found as key factor to determine the degree of inclusive financing (Nuzzo, 2020). Apart from that social networks, wealth class, documentation, age literacy and degree of mutual trust has been observed as significantly relevant determinants of inclusive financing (Akudugu, 2013).
IMPACT OF FINANCIAL INCLUSION

Mixed impact of financial inclusion on stability of financial nature has been recognized in reviewed literature. Enhanced stability in deposit base, liquidity risk reduction and bank asset diversification are few identified positive impacts. On the other hand, credit standard erosion and insufficient regulations for MFIs are few identified negative impact of inclusive financing (et.al Morgan 2014). Significant negative impact of financial inclusion has been recorded on financial efficiency and a positively significant impact of inclusive financing has been observed on financial stability (Le, 2019). Positive impact of financial inclusion on saving mobilization, income channelization, productive investment opportunities, financial literacy, financial knowledge (JishaJoseph, 2014); financial stability (Al-Smadi, 2018) have been found. Further Anwar (2016) has observed in his study that financial inclusion affects investment and growth positively whereas poverty is negatively affected by inclusive financing. Srivastava (2012) found that financial inclusion positively affects competitiveness among banks and financial institution. Further economies of operation and customization of product and services also get affected by financial inclusion in positive manner. Expansion in inclusion of financial nature results in increase in wealth creation, employment generation and hunger elimination (Achugamonu, 2020).

BARRIERS TO FINANCIAL INCLUSION

According to Varghese (2018), distant location of financial institutions, high or unaffordable cost, documents requirement, distrust of financial institutions, account holding by another family member and lack of money have been identified as barriers to financial inclusion. Security concerns, Model multiplicity, Limitations at infrastructural level (Anwar, 2016); financial literacy of limited nature, unfriendly environment in banks, empathy less behavior towards customers, lack of communication (Subbarao, 2009); lack of knowledge, unawareness among users or non-users, lower literacy in financial terms, ineffective associated cost (Rao, 2012) are some identified obstacles in the path of inclusive financing.

CORRECTIVE MEASURES TO REMOVE THE BARRIERS OF FINANCIAL INCLUSION

Community centric approach is required to be undertaken for in depth monitoring and better expansion of inclusive financing (Sharma, 2013). Rao (2012) found that ensuring the accountability of intermediaries like; NGOs, SHGs and MFIs can be proven helpful in attainment of greater extent of financial inclusion. To counter the issues related to low financial literacy and lack of financial understanding, establishment of centers have been recommended to enhance literacy in financial terms and financial counselling and curriculum in schools which provide financial understanding in early age has been also suggested (Subbarao, 2009). Sharma (2013) observed the requirement of trustworthy financial system for promotion of inclusive financing. Tapping of non-facilitated market has been prominently suggested for gaining better results in area of financial inclusion (Srivastava, 2012). Excluded and left out sections like;
women should be considered for further research (Dar, 2020). Proper participation of excluded segments to modern market economies must be ensured to attain the state of full inclusive financing (Nuzzo, 2020).

**INDIA TOWARDS FINANCIAL INCLUSION**

Lessons learned from countries, as in the middle of 2018, the RBI said that more than 35 nations, such as China, Brazil, and Indonesia, have such a national financial inclusion policy. Some of the things that these countries have in common include the following:

I. Having a target-oriented approach (by targeting specific sectors),
II. Maintaining and improving the requisite infrastructure of payment mechanisms,
III. Having a robust and effective regulatory framework,
IV. Targeting on last-mile delivery and financial literacy,
V. Ensuring the proper and enhanced usage of innovation and technology
VI. Periodically monitoring at regular basis and evaluating the functioning as well as progress that has been made in inclusive financing.

Many initiatives have been taken in order to further enhancement of financial inclusion in the nation. In addition, it was mentioned that the bank-led prototype of FI adopted by the RBI through the issuing of distinguishable banking licenses (small finance banks and transactions banks) and the release of Indian Post Payments Bank in September 2018 has aided to bridge the gap in last mile connectivity (Karthikeyan, 2015).

**Strategic goals for financial inclusion**

RBI identified six strategic objectives for a national strategy for FI. These objectives are as follows:

I. Universal access to financial services;
II. Providing a basic bouquet of financial services;
III. Link to livelihood and skill development;
IV. Financial literacy and education;
V. Client protection and disgruntlement redressal;
VI. Effective coordination.

In order to realize this vision, it has outlined a number of key milestones, some of which include:

I. Making sure that each and every individual has direct exposure to a financial service provider using a mobile device by March 2024;
II. Offering banking direct connections to every town (or hamlet of 500 households in hilly areas) within a five-kilometer radius by March 2020; and
III. Bolstering digital financial services to make infrastructure to move toward a cashless society by March 2022.
The Reserve Bank of India (RBI) suggested that the level of financial inclusion must be evaluated based on certain metrics that were applied to three different key indicators. These include parameters to:

I. Measure access, such as the number of bank branches or ATMs for a specified population,

II. Measure usage, such as the percentage of adults who have a savings account, insurance policy, or pension policy, and

III. Measure the service quality, like grievance redressal (through number of complaints received and addressed). In addition to this, it was suggested that surveys be carried out in order to evaluate the existing barriers to financial inclusion (such as issues faced while using digital services, knowledge of customer rights and attitude of service provider).

National strategies for Financial Inclusion

On January 10, 2020, the Reserve Bank of India (RBI) published the National Strategy for Financial Inclusion 2019-2024. It outlines the goals of financial inclusion reforms in India and provides a vision for their future (Abraham, 2017). The RBI was responsible for drafting the plan, and it was developed with contributions from the central government and the regulators of the financial industry (Insurance Regulatory and Development Authority of India, Securities and Exchange Board of India and Pension Fund Regulatory and Development Authority of India).

FINDINGS AND DISCUSSION

Findings of the present study shows positive association between inclusive financing and almost all growth and development parameters. Age, gender, literacy, income have been observed as those demographic factors which extensively affect financial inclusion. Except these some individual, social, infrastructural and regulatory factors have been also identified. Along with identification of barriers to financial inclusion, such as; lack of financial literacy, lack of trust, lower income etc., corrective measures have been recognized. Establishment of financial centers to attain enhanced level of financial literacy, utilization of mediators’ services, inclusion of left out segments etc. have been identified as major recommendations.

CONCLUSION

Equitable and fair distribution of economic growth is essentially required for balanced and regular growth momentum, primarily in developing countries. It has been observed that economic efficiency and economic equity is positively supported by enhanced state of inclusive financing (Karmakar, 2011). Access to financial services is a challenging task for the poor and disenfranchised in emerging nations like India. They are forced to rely on informal moneylenders who demand from them higher rate of interest that they frequently fail to repay,
resulting in a vicious cycle of increasing debt (Rangarajan & Srivastava, 2015). Lack of focus of regional financial institutions as well as lack of financial knowledge and awareness are major obstacles in gaining access to financing. A healthy financial framework will improve the well-being of the populace and lead to the channeling of funds for investment, so boosting the availability of credit in the economy and consequently, investments and economic expansion. In a big nation like India, achieving financial inclusion is a daunting task. However, it appears that the financial inclusion programmes and government initiatives are yielding results (Somani & Nahar, 2015). Income inequality reduction, literacy enhancement and infrastructural improvement is the need of hour to promote inclusion of financial nature (Sarma, 2011). To become a global player, it is required for India to travel through the path of financial inclusion (Menon, 2019).

LIMITATION OF THE STUDY

Present study is limited to the review of existing available research studies. This study is based on literature review method. Only Indian context has been considered. Overview on financial inclusion has been presented by considering selected associated aspects.

RESEARCH IMPLICATION

As this present study sum up the conclusion and discussion of previous studies, it becomes helpful to understand the concept in whole. Researchers can easily find the research gap for future researches with the help of this paper. Policymakers can understand the gist of financial inclusion while making policies.

SCOPE FOR FUTURE STUDIES

Future studies can focus on those aspects of financial inclusion which are still untouched. Such as; antecedents and consequences of financial exclusion in context of specific segments, impact of financial inclusion on selected financial products and selected financial practices can be analyzed. Further functioning and growth of selected financial inclusion campaigns and initiatives can be checked.

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