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Financial Inclusion: A Tool for India's Inclusive and Sustained Economic Development

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Abstract: Globally about 1.7 Billion people do not have access to banking facilities. While banking started in India in 1770, we still have about 190 million unbanked citizens, second only to China. Financial inclusion is more than a tool of socio-economic justice to ensure no one is left behind. It will give the financially excluded in India the economic wherewithal to spend, save, invest and increase income with enhanced employability or entrepreneurship. In turn, it will propel the overall economic wellbeing of the country. This interconnected and symbiotic value chain of economic progress fostered by financial inclusion interventions requires investigation and measurement to better understand its holistic and cascading impact on India's future.

World Bank defines financial inclusion as
"*means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered responsibly and sustainably*." (*Overview*, n.d.)

1. INTRODUCTION

Financial inclusion has become a national imperative for most developing and underdeveloped nations to ensure equitable and inclusive progress for their citizens. Increased financial access streamlines everyday life and enables people to better prepare for life's needs, be it long-term goals or unexpected emergencies.

Elements of financial inclusion
- No-frills banking account
- Savings (investment and pensions)
- Easy to access and use credit products with overdrafts linked to no-frills accounts
- Remittance facilities that allow money transfer
- Insurance (life and non-life)
- Micro pension

Financial inclusion starts with qualifying to open a bank account to gain the first point of access. It also encourages those with access to participate in economic activities, be it spending, saving, or investing. Last but not least, it focuses on financial education to free the marginalized from the age-old trap of moneylenders and intermediaries who have traditionally exploited them by offering loans with little or no exit paths. The end goal is to facilitate the financial enablement of the unbanked, underbanked, and underserved sections irrespective of their income, social, or economic status to make them part of the overall development journey of the nation.

Broadening financial access has a multiplier effect on a country's economic and social evolution. It plays a crucial role in improving the overall human quality index providing better access to education, healthcare, insurance, and financial wherewithal. Even basic or limited access to financial resources will embolden the unbanked and unserved to aim for their own economic and social upliftment.

2. UN SUSTAINABLE DEVELOPMENT GOALS & FINANCIAL INCLUSION

Global Findex 2017, snapshot[1]
- *About 69% of adults now have an account, up from 62% in 2014 and 51% in 2011.*
- *About 65% of the women adults now have an account.*
- *About 52% of adults either receive or make payments.*
- *About 87% of SMEs have an account with a formal financial institution.*
- *About 30% of people worldwide have received wages or government transfer payments directly to an account.*

The Global Findex[2] database, a comprehensive data set on how adults save, borrow, make payments, and manage risk,

[1] Role of financial inclusion in achieving sustainable .... https://blog.iilm.edu/role-financial-inclusion-achieving-sustainable-development-goals/
[2] https://globalfindex.worldbank.org/node

indicates that financial inclusion is rising globally. The 2017 Global Findex indicates that 1.2 billion adults have obtained a bank account since 2011. 515 million accounts have been added since 2014.

These statistics indicate worldwide progress in achieving the goal of financial inclusion. A question that may still arise is how does financial inclusion help, and what is its role in development?

United Nations has placed financial inclusion in eighth among its seventeen Sustainable Development Goals 2030 (SDGs) widely accepted by 193 developed and developing countries. UN has positioned this goal as an enabler of other SDGs (*Financial Inclusion and the SDGs - UN Capital Development Fund (UNCDF)*, n.d.). As demonstrated below, the benefits emanating from improved financial access impact the five SDG's that set a solid foundation to achieve the end goal of shared economic growth (SDG 8) and promote innovation and sustainable industrialization (SDG 9). When implemented synchronously, these measures will lead to sustained and long-term economic development and establish a harmonious and financially inclusive society benefitting many.

Higher and better access to financial services in rural and underprivileged areas helps the population overcome poverty	
Improved access to funds like crop agricultural insurance and improved credit facilities enables people to manage their finance better, generate higher yields and farm produce. Improved food production implies food security in the economy	
When living standards rise, people come out of the poverty line, have food security, have access to various insurance facilities; achieving the third SDG is possible	
With monetary constraints removed, people get encouraged to invest in children's education	
Women empowerment becomes possible; more women entrepreneurs mean moving closer to gender equality	

3. MULTIPLIER IMPACT

There are apparent long-term macro and micro benefits of a society with widespread financial inclusion. These include better earnings, women empowerment, entrepreneurship, reduced cost of transactions, increased adoption of digital platforms – all through greater access to financial products and services delivered at the last mile.

Multiplier impact on the socio-economic wellbeing of individuals and nations

Macro benefits	***Micro benefits***
▪ *Higher productivity & efficiency* ▪ *Accelerated economic growth* ▪ *Reduction in income inequalities* ▪ *Balanced development* ▪ *Poverty reduction* ▪ *International acclaim* ▪ *Increase in national income*	▪ *A rise in income, consumption, savings, and investments* ▪ *Enhanced quality of life and better living standards* ▪ *Addresses illiteracy* ▪ *Buffer against avoidable expenditure* ▪ *Safety of assets from major disruptions*

▪ *More employment & income opportunities* ▪ *Effective distribution of subsidies and social security schemes, such as old-age pensions and crop insurance through DBT, prevents distribution channels.*	▪ *Freedom from clutches of moneylenders* ▪ *Increase in risk-taking ability* ▪ *Improved self-esteem and a sense of elevation.*

Fig.1. The multiplier effect of robust financial inclusion

4. FINANCIAL INCLUSION IN INDIA - THE JOURNEY SO FAR

The developments of the past five decades reflect the Government and Reserve Bank of India's (RBI) push to widen financial access for citizens. These measures include nationalizing banks, setting up a network of scheduled and regional rural banks, and co-operatives supported by bank business correspondents (BCs) and Self Help Groups (SHGs) to ensure doorstep delivery of banking services. The Reserve bank of India introduced financial inclusion as a structured and strategic goal in 2005.

The World Bank's Global Findex Report 2017: Highlights of Banking in India

- *80% of Indian adults (age 15+) have a bank account compared to 35% in 2011 and 53% in 2014*
- *77% of Indian women (age 15+) have bank accounts, against 43% and 26% respectively in 2014 and 2011.*
- *Indian men were 20 percentage points more likely to have an account in 2014; that gap has shrunk to 6 percentage points in 2017*
- *Among the poorest 40 percent households, adult account ownership rose to 77% in 2017, from 44% in 2014*
- *In the wealthiest 40% of households, account ownership among adults rose to 82% in 2017 from 59% in 2014 and 41% in 2011*
- *In 2014, adults in the wealthiest 60 percent households were 15 percentage points more likely than those in the poorest 40 percent to have an account. Since then, the gap has narrowed to 5 percentage points*
- *India has the world's highest inactive bank accounts at 48% compared to the 13% global average. (Partly attributable to the Jan Dhan Yojana scheme, which brought in 310 million Indians into the formal banking system between August 2014 to March 2018, of which many may not have used their new account.)*

In April 2021, the RBI announced a composite Financial Inclusion Index (FI-Index)[3] outlining 97 parameters that also serve as indicators of the country's financial inclusion progress. The index tracks the contributions of the banking, investments, insurance, postal, and pension sectors, developed in consultation with the government and the respective sectoral regulators.

An earlier report of the Committee on Financial Sector Reforms, chaired by Dr. Raghuram Rajan, ex-Governor of the Reserve Bank of India, illustrated households' access to financial services and their economic impact. As shown in the figure below, affordable access to formal saving instruments has positive benefits. It results in higher savings, productive investment, consumption, and overall economic empowerment. An analysis of countries with deeper financial inclusion has shown more robust GDP growth rates and lower income inequality.

3 https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=52068

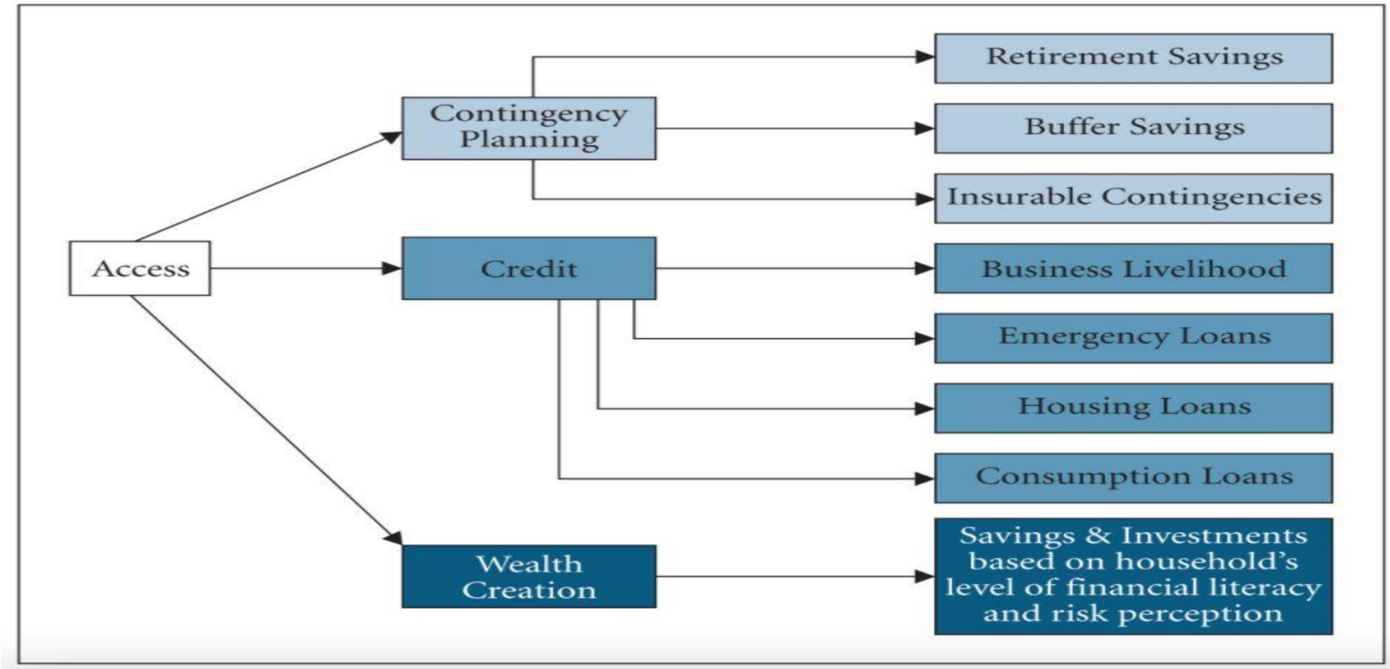

Fig.2. Household Access to Financial Services, report of the Committee on Financial Sector Reforms, 2009, pg. 50

Digitization has revolutionized the financial inclusion matrix and taken it beyond the brick and mortar institutions to the mobile phones in people's hands. According to a report published by ACI Worldwide, more than 70.3 billion real-time payments transactions were processed globally in 2020, more than 41% over the prior year. The onset of COVID-19 had a significant role to play in the shift as well. The report's findings showed that India led the global real-time payments transactions at 25.5bn in 2020. Real-time payments will grow to 71.7% of all such transactions in India by *2025 (Global Real-Time Payments Transactions Surge by 41 Percent in 2020 as COVID-19 Pandemic Accelerates Shift to Digital Payments - New ACI Worldwide Research Reveals | ACI Worldwide, Inc., n.d.).*

Digital India[4], the national program rolled by the Government of India, is further widening banking facilities and simplifying procedures related to financial instruments. The demonetization in 2016 and the Covid-19 pandemic further accelerated the digital penetration[5] in India. Today, anyone with a valid bank account and mobile phone can make quicker and more manageable payments.

As per a World Bank report from 2018 and RBI's Bulletin from 2020, the total volume of digital transactions in India (including various payment channels and mechanisms) grew at a Compound Annual Growth Rate (CAGR) of 30% from 1,142 Million in April 2015 to 1,928 Million in April 2017. On the other hand, mobile banking transactions grew more than five times, from 19.75 Million to 106.18 Million in the same period. Mobile wallet transactions grew from 11.96 million transactions in April 2015 to 387.6 million transactions worth Rs. 15,408 crore in January 2020. (World Bank, 2018) (*Reserve Bank of India - Press Releases*, n.d.).

On the back of the increased access, India's UPI (Unified Payment Interface) has grown from processing 17.9 million digital transactions per month in 2016 to 1.3 billion per month in 2020 (*Reserve Bank of India - Reports*, n.d.).

5. FINANCIAL INCLUSION PROGRAMS IN INDIA[6]

The government's financial inclusion initiatives aim to provide banking and financial solutions and services to the population without discrimination and offer assistance transparently without hidden transactions or costs. The Government has introduced schemes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), which are Zero Balance BSBD (Basic Savings Bank Deposit) (*Reserve Bank of India - Reports*, n.d.). Under this scheme, approximately 192.1 million accounts have been opened, and 165.1 million debit cards issued. The accounts also come with a life insurance cover of Rs 30,000

[4] (*Digitalindia | Digital India Programme | Ministry of Electronics & Information Technology (MeitY) Government of India*, n.d.)
[5] (*Coronavirus Succeeds Where Demonetisation Failed as Indians Dump Cash for Digital Payments*, n.d.)

[6] https://financialservices.gov.in/banking-divisions/Important-Schemes

and an accidental insurance cover of Rs 1 lakh *('WHAT IS FINANCIAL INCLUSION,' n.d.).*

6. WOMEN EMPOWERMENT AND FINANCIAL INCLUSION

Other programs to meet India's financial inclusion goals:

i. *Pradhan Mantri Jan Dhan Yojana (PMJDY)*
ii. *Atal Pension Yojana (APY)*
iii. *Pradhan Mantri Vaya Vandana Yojana (PMVVY)*
iv. *Stand Up India Scheme*
v. *Pradhan Mantri Mudra Yojana (PMMY)*
vi. *Pradhan Mantri Suraksha Bima Yojana (PMSBY)*
vii. *Sukanya Samriddhi Yojana*
viii. *Jeevan Suraksha Bandhan Yojana*
ix. *Credit Enhancement Guarantee Scheme (CEGS) for Scheduled Castes (SCs)*
x. *Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives*
xi. *Varishtha Pension Bima Yojana (VPBY)*
xii. *Kisaan Credit Cards*

Women empowerment through financial inclusion is imperative for social progress and improving the quality of life and people. Experts believe that women are more adept than men at handling household financial matters. Trained in financial literacy, they can play an enabling and positive role in improving their households' economic condition. However, in tradition-bound Indian families, men have led the financial decisions while women focus on domestic chores like cooking and raising children and do not have the leeway to manage money. (Bhatia & Singh, 2019). Today, banks, including small finance banks and micro-finance institutions, SHGs, and financial institutions focused on women, are invested in making Indian women financially aware and independent. They offer women loans at lower interest rates to start entrepreneurial ventures and provide higher returns on their savings and other benefits.

7. FINTECH AND FINANCIAL INCLUSION

Fintech, or financial technology, is accelerating access to financial services to Indians, both banked and unbanked. Fintech firms, including several start-ups, bring a wide range of products and services at minimal costs to customers (Popescu, 2019). They are helping the rural population to open bank accounts and transact using mobile internet and mobile phones. Crowdfunding, digital payment systems, peer-to-peer (P2P) transfers, electronic wallets, among others facilitated by technology, are increasingly adopted by urban and rural India.

The government has introduced smart payment mechanisms like Bharat Interface for Money (BHIM), Aadhaar Pay, private e-wallets (Paytm, Freecharge, Axis Bank Lime, Jio Money, ICICI Pockets, HDFC PayZapp), and others to facilitate cashless payments at a minimal cost. These players are driving the adoption of technology-enabled platforms through attractive discounts, cashback, and other offers to reach financial services to the economically underprivileged sections of society. However, many users are still uncomfortable using technology-enabled solutions and need awareness and education.

Fig. 3. https://www.cbinsights.com/research/india-fintech-startup-market-map/ (2017)

The government has also rolled out several interventions to promote digital financial transactions, such as the Unified Payment Interface (UPI), Unstructured Supplementary Service Data (USSD) banking methods, Immediate Payment Service (IMPS), National Electronic Funds Transfer (NEFT), Aadhaar Pay, debit cards, BHIM, and credit cards. It also plans to offer digital receipts for governmental transactions, replacing the currently prevalent paper-based process to enhance operational transparency, reduce corruption, and distribute government welfare schemes directly to the poor through the Direct Benefit Transfer (DBT) route.

8. CHALLENGES

Though there are multiple and unique opportunities that financial inclusion provides to build a sustainable financial system, there are several roadblocks to be overcome. (Varghese & Viswanathan, 2018)

Demand Side Challenges	Supply Side Challenges
• Sizeable unbanked population • Limited access to credit • Low skill & low productivity • Vulnerability to the risks of small and marginal farmers, rural landless & urban poor • Lack of financial and technological literacy	• Reluctance of financial institutions to serve small value and unprofitable customers with irregular income • Keeping accounts operative for impact, including maximum DBTs for the economically weak

The growing digitization is creating further barriers to inclusion, given not everyone has access to digital tools nor the knowledge of using them. Again, a significant proportion of the citizens in rural areas or tribal villages are unaware of the existence or importance of identity documents such as PAN, Aadhaar, or Electoral ID. Therefore, they cannot access many of the social and economic welfare services offered by governmental or private institutions. The digital divide and lack of financial literacy are issues that need to be tackled to transform the prevalence of digital solutions into an enabler. Therefore, a crucial part of the government and non-governmental organization efforts are focused on creating awareness about financial services and management and developing formal and systematic credit avenues for the unserved and marginalized. Programs such as 'Pradhan Mantri Gramin Digital Saksharta Abhiyan' (PMGDISHA) aim to impart digital literacy to one person per household or 6,000,0000 people across rural India.

9. LOOKING AHEAD

Financial inclusion is a goal post that is forever moving. In India, as the population grows, demographics change, and technology advances, the path towards financial sustainability and economic development will take different turns and adopt new formats. To keep the momentum going, we will require substantial investments and consistent commitment to create and enhance a robust social and physical infrastructure to facilitate financial inclusion for all. In parallel, developing innovative products and services and designing seamless delivery will remain critical aspects to foster inclusive economic activity and growth. Alongside, spreading financial literacy to educate the underprivileged about services, their usage, pitfalls like digital frauds, and rights will be vital to building a financially evolved and inclusive society.

There is also an imminent need to restructure the financial system in the country to create an enabling environment to reach services to the unserved and underserved. Credit disbursements have to be more flexible, efficient, and cost-effective with simpler documentation. NGOs, financial institutions, including Small Finance Banks need to engage more closely with the economically disadvantaged and introduce tailor-made services for the economically disadvantaged. Scalable and streamlined delivery mechanisms that leverage technology to reduce layers of red tape and simplify procedures while ensuring the security of transactions will go a long way to instill greater confidence amongst the new users of financial services. A cohesion of intent and synergy in efforts is the need of the hour to realize the aspirations of a billion-plus Indians to build a harmonious and inclusive society that ensures the economic and social wellbeing of all.

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