



Financial inclusion: A way to economic welfare

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Abstract

Financial inclusion is a crucial policy objective for India, aimed at promoting economic growth and reducing poverty by ensuring access to financial services for all. Despite being the world's fifth-largest economy, a significant proportion of India's population lacks access to basic financial services, such as savings accounts, credit, insurance, and payment systems. This research paper aims to examine the progress made towards financial inclusion in India, the challenges that remain, and the policies and initiatives being undertaken to address these challenges.

Keywords: financial inclusion, promoting economic, savings accounts, credit, insurance

Introduction

Financial inclusion can be defined as the process of providing access to a range of financial services to individuals and households, particularly those who are excluded from the formal financial sector. The goal of financial inclusion is to enable all individuals and households to participate in the economy and benefit from economic growth. Financial inclusion encompasses a range of financial services, including savings accounts, credit, insurance, and payment systems. These services can be provided by banks, non-banking financial institutions, microfinance institutions, and other financial service providers. The lack of access to financial services is a significant challenge in many countries, particularly in developing countries. According to the World Bank, around 1.7 billion adults around the world are unbanked, meaning they do not have a bank account or access to formal financial services. Lack of access to financial services can limit opportunities for economic growth and reduce the ability of individuals and households to manage their finances, invest in education and health, and start or expand businesses. In recent years, there has been increasing recognition of the importance of financial inclusion as a policy objective. Many countries, including India, have launched initiatives and policies aimed at promoting financial inclusion and expanding access to financial services for all. These efforts are aimed at ensuring that all individuals and households can benefit from economic growth and contribute to broader economic and social development. Financial inclusion is a key policy objective for the Indian government, aimed at promoting economic growth and reducing poverty by ensuring access to financial services for all. India has made significant progress in recent years towards achieving financial inclusion, with the introduction of various initiatives and policies aimed at expanding access to financial services to previously underserved populations.

One of the most significant efforts towards financial inclusion in India has been the establishment of the Pradhan Mantri Jan-Dhan Yojana (PMJDY), a nationwide scheme launched in 2014 that aims to provide access to financial services to all households in India. The scheme has been successful in opening over 400 million bank accounts for previously unbanked individuals, and has facilitated the

provision of a range of financial services, including insurance and pension schemes. Other initiatives aimed at promoting financial inclusion in India include the development of mobile banking services, the expansion of microfinance institutions, and the introduction of digital payment systems. However, despite these efforts, significant challenges remain, including limited financial literacy, inadequate infrastructure, and regulatory constraints. To address these challenges, the Indian government is continuing to invest in innovative solutions and policies aimed at expanding financial inclusion, including the introduction of new technologies and partnerships with private sector actors. These efforts are crucial for promoting inclusive economic growth and ensuring that all individuals and businesses in India have access to the financial services they need to thrive.

Financial inclusion refers to the provision of financial services to individuals and businesses who do not have access to traditional banking services. This includes services such as savings accounts, credit, insurance, and payment systems. Financial inclusion is crucial for reducing poverty, promoting economic growth, and building more resilient communities. Various initiatives have been undertaken globally to promote financial inclusion, including the establishment of mobile banking services, the development of microfinance institutions, and the introduction of regulatory frameworks that encourage the provision of financial services to marginalized communities. However, despite these efforts, significant barriers to financial inclusion persist, including limited financial literacy, inadequate infrastructure, and regulatory constraints. Therefore, there is a continued need for innovative solutions and policies that can help address these challenges and ensure that all individuals and businesses have access to the financial services they need to thrive.

Journey of financial inclusion in India

Financial inclusion has been a key policy objective for India since the early 2000s. The journey of financial inclusion in India has been marked by several initiatives and policies aimed at expanding access to financial services to previously underserved populations. In 2005, the Reserve Bank of India (RBI) established a committee on Financial Inclusion to examine the issue of financial exclusion and

recommend measures to promote financial inclusion. The committee's recommendations led to the launch of several initiatives aimed at expanding access to financial services, including the establishment of microfinance institutions and the introduction of no-frills accounts by banks. One of the most significant initiatives towards financial inclusion in India has been the establishment of the Pradhan Mantri Jan-Dhan Yojana (PMJDY) in 2014. The scheme aimed to provide access to financial services to all households in India and has been successful in opening over 400 million bank accounts for previously unbanked individuals. The PMJDY scheme also facilitated the provision of a range of financial services, including insurance and pension schemes. Other initiatives aimed at promoting financial inclusion in India include the development of mobile banking services, the expansion of microfinance institutions, and the introduction of digital payment systems. The introduction of the Unified Payments Interface (UPI) in 2016 has been particularly significant in promoting digital payments and expanding access to financial services in the country. Despite these efforts, several challenges remain in achieving financial inclusion in India. One of the major challenges is limited financial literacy among the population, particularly in rural areas. Inadequate infrastructure, particularly in rural areas, also poses a significant challenge to financial inclusion. Furthermore, regulatory constraints often limit the provision of financial services to marginalized communities. To address these challenges, the Indian government has undertaken several initiatives and policies. For instance, the Digital India campaign, launched in 2015, aims to promote digital infrastructure and services, including digital payments, to ensure financial inclusion. Additionally, the National Rural Livelihood Mission (NRLM) aims to provide access to credit and financial services to rural households. In conclusion, the journey of financial inclusion in India has been marked by several initiatives and policies aimed at expanding access to financial services to previously underserved populations. While significant progress has been made, challenges remain in achieving financial inclusion in the country. Continued efforts are required to promote financial literacy, expand infrastructure, and improve regulatory frameworks to ensure sustainable and inclusive economic growth.

Financial inclusion platforms

Financial inclusion platforms are digital tools and technologies designed to expand access to financial services and promote financial inclusion. These platforms use technology to provide a range of financial services, such as savings accounts, credit, insurance, and payment systems, to previously underserved populations. Here are some examples of financial inclusion platforms

- **Mobile banking**

Mobile banking is a platform that allows individuals to access financial services through their mobile phones. Mobile banking has been a significant driver of financial inclusion, particularly in developing countries where access to physical banking infrastructure is limited.

- **Digital Payments**

Digital payment platforms enable individuals and businesses to make payments using digital tools such as mobile phones, internet banking, and digital wallets. These platforms have the potential to revolutionize payment systems, making them more accessible, efficient, and cost-effective.

- **Microfinance institutions**

Microfinance institutions are financial service providers that offer small loans, savings accounts, and insurance to individuals and small businesses that may not have access to traditional banking services. Microfinance institutions have been instrumental in expanding access to credit and other financial services in many developing countries.

- **Peer-to-peer lending platforms**

Peer-to-peer lending platforms enable individuals and businesses to borrow and lend money directly to each other, without the need for intermediaries such as banks. These platforms can provide access to credit to individuals and businesses that may not qualify for traditional bank loans.

- **Blockchain-based platforms**

Blockchain-based platforms use decentralized ledger technology to provide financial services, such as payment systems, lending, and insurance. These platforms offer secure, transparent, and low-cost financial services, particularly for individuals and businesses in developing countries.

In conclusion, financial inclusion platforms are critical tools for expanding access to financial services and promoting financial inclusion. These platforms leverage technology to provide affordable and accessible financial services, particularly to underserved populations. As technology continues to evolve, there is significant potential for financial inclusion platforms to transform the financial services landscape and promote sustainable and inclusive economic growth.

Benefits of financial inclusion

Financial Inclusion has numerous benefits for individuals, households, and the broader economy. Here are some of the key benefits of financial inclusion

- **Poverty reduction**

Financial inclusion can help reduce poverty by providing individuals and households with access to financial services, such as savings accounts and credit, which can enable them to invest in education, health, and small businesses, and build financial resilience.

- **Economic growth**

Financial inclusion can promote economic growth by expanding access to credit and other financial services, enabling individuals and businesses to invest and grow. Financial inclusion can also increase financial sector development, boost entrepreneurship, and create jobs.

- **Financial stability**

Financial inclusion can enhance financial stability by reducing reliance on informal financial systems and increasing the resilience of financial institutions. Access to formal financial services can help individuals and households better manage their finances, reducing the likelihood of financial crises.

- **Gender equality**

Financial inclusion can promote gender equality by providing women with access to financial services and enabling them to participate more fully in economic activities. Women are often excluded from formal financial systems, but financial inclusion can help overcome this barrier.

▪ **Improved health and education**

Financial inclusion can improve health and education outcomes by providing individuals and households with access to financial services, enabling them to invest in healthcare and education.

▪ **Social Inclusion**

Financial inclusion can promote social inclusion by providing access to financial services to marginalized and excluded populations, such as low-income households, rural communities, and individuals with disabilities.

In conclusion, financial inclusion has numerous benefits, including poverty reduction, economic growth, financial stability, gender equality, improved health and education, and social inclusion. These benefits highlight the importance of promoting financial inclusion and expanding access to financial services for all.

Who is being benefitted from financial inclusion?

Financial inclusion benefits a wide range of individuals and groups. Here are some of the key beneficiaries of financial inclusion

▪ **Low-Income Households**

Financial inclusion benefits low-income households by providing them with access to financial services, such as savings accounts and credit, which can enable them to invest in education, health, and small businesses, and build financial resilience.

▪ **Small and medium-sized enterprises**

Financial inclusion benefits small and medium-sized enterprises (SMEs) by providing them with access to credit and other financial services, enabling them to invest and grow. SMEs are a critical driver of economic growth and job creation, and financial inclusion can help support their growth.

▪ **Women**

Financial inclusion benefits women by providing them with access to financial services and enabling them to participate more fully in economic activities. Women are often excluded from formal financial systems, but financial inclusion can help overcome this barrier.

▪ **Rural Communities**

Financial inclusion benefits rural communities by providing access to financial services that may not be available in remote areas. Access to financial services can enable rural communities to invest in agriculture, education, and healthcare and promote economic growth in these areas.

▪ **Youth**

Financial inclusion benefits youth by providing them with access to financial services, such as savings accounts and credit that can enable them to invest in education and build financial resilience.

▪ **Individuals with Disabilities**

Financial inclusion benefits individuals with disabilities by providing them with access to financial services that may not be accessible through traditional channels. Access to financial services can promote greater financial independence and social inclusion for individuals with disabilities.

In conclusion, financial inclusion benefits a wide range of individuals and groups, including low-income households, SMEs, women, rural communities, youth, and individuals with disabilities. Expanding access to financial services is critical for promoting inclusive economic growth and reducing poverty and inequality.

World's biggest financial inclusion scheme

Jan Dhan Yojana is India's biggest financial inclusion program, launched by Prime Minister Narendra Modi in 2014. Also Pradhan Mantri Jan Dhan Yojana (PMJDY) has the world record of being world's largest financial inclusion initiative. It aims to provide universal access to banking facilities to all households in the country. Under this scheme, bank accounts are opened for individuals and households in both rural and urban areas, with no minimum balance requirements. The program also provides a debit card, insurance cover, and access to credit facilities. As of September 2021, over 43.38 crore (433.8 million) bank accounts have been opened under the scheme, with a total balance of over Rs. 1.53 lakh crore (approximately \$20 billion USD). The program has also enabled the government to transfer various subsidies and benefits directly to the bank accounts of beneficiaries, eliminating leakages and ensuring efficient delivery of services. Jan Dhan Yojana has played a critical role in promoting financial inclusion in India, particularly among low-income households and those in rural areas. The program has helped increase the penetration of formal banking services and has contributed to financial empowerment and economic development in the country.

A Brief Review of Jan Dhan Yojna

Jan Dhan Yojana is a comprehensive financial inclusion program launched by the Government of India in 2014, aimed at providing universal access to banking facilities for all households in the country. The program is implemented by the Department of Financial Services, Ministry of Finance, and has been one of the flagship schemes of the government's financial inclusion agenda.

The key objectives of the Jan Dhan Yojana are to

- Provide access to basic banking services to all households in the country, particularly in rural areas and to the economically weaker sections of society.
- Promote financial literacy and awareness among the masses.
- Promote the use of digital transactions and mobile banking.

The scheme offers a range of benefits to account holders, including no minimum balance requirement, life insurance coverage of Rs. 2 lakhs (approximately \$2,700 USD), an accidental insurance cover of Rs. 2 lakhs (approximately \$2,700 USD), and overdraft facilities of up to Rs. 10,000 (approximately \$135 USD). The scheme also offers debit cards with inbuilt accident insurance cover, and access to credit facilities and remittance services.

The implementation of the Jan Dhan Yojana has been quite successful, with over 43.38 crore (433.8 million) bank accounts opened as of September 2021. The scheme has also helped in reducing leakages and corruption in the delivery of government subsidies and benefits, as most of these are now being directly transferred to the bank accounts of beneficiaries.

Some of the key achievements of the scheme include

▪ Increased access to banking facilities

Jan Dhan Yojana has led to an increase in the number of households having a bank account. As of September 2021, 100% of households in India have at least one bank account.

▪ Financial empowerment

The scheme has empowered low-income households and individuals by providing them with access to formal banking services. The scheme has also enabled them to save money, avail of credit facilities, and access other financial products and services.

▪ Reduced leakages and corruption

The scheme has helped in reducing leakages and corruption in the delivery of government subsidies and benefits by providing direct benefit transfer (DBT) to the beneficiaries' bank accounts.

▪ Promotion of digital transactions

The scheme has also played a critical role in promoting digital transactions and reducing cash transactions. The scheme has enabled account holders to use digital transactions and mobile banking services, leading to a reduction in the use of cash.

However, the scheme has also faced some challenges, including issues related to the misuse of overdraft facilities, lack of awareness among account holders, and the limited number of bank branches in rural areas.

In conclusion, Jan Dhan Yojana is a comprehensive financial inclusion program that has played a critical role in promoting financial inclusion and digital transactions in India. The scheme has been successful in achieving its objectives of providing access to basic banking services, promoting financial literacy, and empowering low-income households and individuals. However, there is still a long way to go in ensuring that all households in the country have access to formal banking services and promoting financial inclusion across all segments of society.

Future perspectives of financial inclusion in India

The future of financial inclusion in India is promising, as the country has made significant progress in expanding access to banking services and promoting financial literacy. Here are some future perspectives of financial inclusion in India

▪ Expansion of digital payments

The COVID-19 pandemic has accelerated the adoption of digital payments in India. Going forward, there is likely to be a greater emphasis on promoting digital payments and reducing cash transactions, which will contribute to financial inclusion.

▪ Inclusion of marginalized communities

Despite the progress made in promoting financial inclusion, there are still several marginalized communities in India that are excluded from the formal financial system. Going forward, there will be a greater focus on expanding access to banking services to these communities, including women, rural populations, and low-income households.

▪ Leveraging technology

Technology will play a critical role in promoting financial inclusion in India. The use of digital technology and mobile banking services will enable the expansion of banking services to remote and underserved areas, thereby promoting financial inclusion.

▪ Collaboration between stakeholders

Achieving financial inclusion in India will require collaboration between various stakeholders, including the government, financial institutions, and civil society organizations. There will be a greater emphasis on public-private partnerships to expand access to banking services and promote financial inclusion.

▪ Focus on financial literacy

Financial literacy is essential for promoting financial inclusion, and there will be a greater emphasis on promoting financial literacy among the masses. Financial education programs will play a critical role in empowering individuals and households to make informed financial decisions and participate in the formal financial system.

In this way, the future of financial inclusion in India is bright, with a greater focus on digital payments, inclusion of marginalized communities, leveraging technology, collaboration between stakeholders, and promoting financial literacy. These efforts will help expand access to banking services and promote financial empowerment and economic development in the country.

Innovation for financial inclusion in India

Innovation has played a critical role in promoting financial inclusion in India, as it has enabled the expansion of banking services to underserved and remote areas. Here are some innovations that have contributed to financial inclusion in India

▪ Mobile banking

Mobile banking has emerged as a game-changer in promoting financial inclusion in India. The use of mobile phones for banking services has enabled people in remote and underserved areas to access financial services, without the need for physical infrastructure.

▪ Aadhaar-enabled payments

The Aadhaar system, which provides a unique identification number to every citizen, has enabled the development of Aadhaar-enabled payments, which have simplified the process of financial transactions. Aadhaar-enabled payments have made it possible for people to receive government benefits directly in their bank accounts, without the need for intermediaries.

▪ Payment banks

Payment banks are a new type of bank that provides basic banking services, such as deposits and withdrawals, to customers. Payment banks are designed to cater to underserved areas and remote locations, and they leverage digital technology to provide banking services.

▪ Microfinance institutions

Microfinance institutions (MFIs) have played a critical role in promoting financial inclusion in India. MFIs provide small loans to low-income households and underserved communities, enabling them to start businesses and improve their livelihoods.

▪ Blockchain technology

Blockchain technology has the potential to transform the financial sector in India, as it provides a secure and transparent platform for financial transactions. Blockchain technology can enable the development of decentralized financial services, which can reach underserved and remote areas.

In this way, innovation has been instrumental in promoting financial inclusion in India, and there is tremendous potential for further innovation in this space. The use of mobile banking, Aadhaar-enabled payments, payment banks, microfinance institutions, and block chain technology has enabled the expansion of banking services to underserved and remote areas, and has empowered individuals and households to participate in the formal financial system.

Conclusion

In conclusion, financial inclusion is a critical component of economic development and poverty reduction in India. The country has made significant progress in expanding access to banking services and promoting financial literacy, but there is still a long way to go to achieve full financial inclusion. Financial inclusion has the potential to unlock economic growth, as it enables individuals and households to participate in the formal financial system and access credit, savings, insurance, and other financial services. Financial inclusion also has social benefits, as it can promote gender equality, reduce poverty, and improve social welfare. There have been several initiatives and programs in India to promote financial inclusion, including Jan Dhan Yojana, Pradhan Mantri Mudra Yojana, and the National Payments Corporation of India. These programs have expanded access to banking services and enabled individuals and households to participate in the formal financial system. Going forward, there is a need for greater collaboration between stakeholders, including the government, financial institutions, and civil society organizations, to expand access to banking services and promote financial literacy. There is also a need for innovation, particularly in the areas of digital technology and mobile banking, to enable the expansion of banking services to remote and underserved areas. So, financial inclusion has the potential to transform the lives of millions of people in India and unlock economic growth and social welfare. It is essential that India continues to prioritize financial inclusion and implements policies and programs to ensure that all individuals and households have access to banking services and financial literacy.

Overall, the study concludes that while significant progress has been made towards financial inclusion in India, challenges remain. To ensure sustainable and inclusive economic growth, continued efforts are required to address these challenges, particularly in promoting financial literacy, expanding infrastructure, and improving regulatory frameworks. By adopting a comprehensive and integrated approach, India can achieve its objective of financial inclusion and contribute to broader economic and social development.

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