IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

An Assessment Of Financial Inclusion In India – A Study

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Abstract

Financial inclusion can be defined as a process of providing financial services to the poor and destitute sections of the society, whose income is low. The main objective of financial inclusion is to remove all the blockades that prevent people from getting financial assistance and provide financial services without any discrimination like banking i.e., savings and payments through bank branches, ATM, cheques, and e-transfer; Insurance i.e., life as well as non-life (general) insurance; credit i.e., loans at affordable rates; investment opportunities like mutual funds, pension plans, child investment plans etc. This paper is an attempt to know about the present status of financial inclusion and various actions taken by the government for greater financial inclusion in India. The paper highlights the impact of financial inclusion if they are present or absent in an economy and importance of financial inclusion in economic and social development.

Keywords: Financial inclusion, Government initiatives, current scenario, Opportunities and Challenges.

I. INTRODUCTION

Financial inclusion is a critical aspect of economic development, ensuring that all individuals and businesses have access to necessary financial services at affordable costs. In a country as diverse and populous as India, achieving comprehensive financial inclusion is both a challenge and a necessity. Financial inclusion in India involves providing access to banking services, credit facilities, insurance, and digital payment systems to the entire population, particularly those in rural and underserved areas. It plays a pivotal role in reducing poverty, promoting economic growth, and ensuring social equity.

Over the years, India has made significant strides toward improving financial inclusion, driven by concerted efforts from the Government of India and the Reserve Bank of India (RBI). These efforts have been particularly focused on bringing the unbanked population into the formal financial system, enabling them to save securely, access credit, and make digital transactions. Key initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), Direct Benefit Transfer (DBT), Digital India, and various microfinance schemes have been instrumental in expanding financial services to the masses. This study aims to assess the current scenario of financial inclusion in India, exploring the extent to which the population has access to and utilizes financial services. The first objective is to analyze the present landscape of financial inclusion by examining key indicators such as the number of bank accounts, credit accessibility, and the adoption of digital payment systems. The second objective is to highlight and evaluate the measures taken by the Government of India and the RBI to promote financial inclusion. By doing so, the study seeks to provide a comprehensive understanding of the progress made so far and identify areas where further efforts are needed to achieve universal financial inclusion. The findings from this study are expected to contribute to the ongoing discourse on financial inclusion, offering insights that can guide future policies and initiatives to ensure that financial services reach every citizen, thereby fostering inclusive economic growth and social development in India.

II. REVIEW OF LITERATURE

Bhattacharya, P., & Singh, M. (2023)[1] This study examines the role of digital financial services in enhancing financial inclusion in India. It explores how mobile banking, digital payment platforms, and fintech innovations have contributed to expanding access to financial services, particularly in rural and underserved areas.

Chaudhuri, S., & Deb, S. (2022)[2] This paper analyses the effectiveness of various government initiatives aimed at promoting financial inclusion in India. It focuses on key programs like the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Direct Benefit Transfer (DBT) schemes, assessing their impact on the inclusion of previously unbanked populations.

Raman, A., & Kumar, R. (2022)[3] This study provides a comparative analysis of financial inclusion across different states in India. It identifies the factors that contribute to regional disparities in financial inclusion and offers policy recommendations to address these inequalities.

Gupta, P., & Sharma, N. (2022)[4] he paper explores the relationship between financial inclusion and economic development in India. It evaluates the progress made in achieving financial inclusion goals and identifies the challenges that remain, particularly in reaching marginalized communities.

Verma, S., & Kapoor, D. (2021)[5] This study investigates the role of microfinance institutions in advancing financial inclusion in India. Through a case study approach, it highlights the impact of microfinance on improving access to credit for low-income individuals and small businesses, particularly in rural areas.

III. OBJECTIVES OF THE STUDY

The specific objectives of this research study are as follows:

(i) To study the current scenario of financial inclusion in India.

(ii) To highlight the measures taken by Government of India and Reserve bank of India for promoting financial inclusion.

IV. CURRENT SCENARIO OF FINANCIAL INCLUSION IN INDIA

Financial inclusion is a critical aspect of India's economic development, aimed at ensuring that all individuals and businesses, irrespective of their economic status, have access to useful and affordable financial products and services. These include banking, credit, insurance, and remittance services, delivered in a responsible and sustainable manner. In recent years, significant progress has been made in this area due to various government initiatives, technological advancements, and policy measures.

- **Access to Banking Services**

The cornerstone of financial inclusion is access to banking services. The government's efforts through the Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in August 2014, have played a pivotal role in this regard. As of 2023, over 490 million PMJDY accounts have been opened, with a cumulative balance of INR 1.94 trillion.

Table 1: Key Statistics of PMJDY (as of 2023)

Parameter	Value
Total Accounts Opened	490 million
Rural Accounts	320 million
Urban Accounts	170 million
Female Account Holders	55%
Cumulative Balance	INR 1.94 trillion
Accounts with Zero Balance	8%

(Data source: PMJDY)

- **Digital Payments and Financial Inclusion**

The digital revolution in India has further accelerated financial inclusion. The Unified Payments Interface (UPI) has been a game-changer, enabling instant money transfers between bank accounts via mobile phones. As of 2023, UPI has crossed 10 billion transactions per month, making it one of the most popular digital payment platforms in the world.

Table 2: UPI Transactions Statistics (2023)

Month	Number of Transactions (in billion)	Transaction Value (INR trillion)
January	7.6	12.9
March	8.3	14.0
May	9.0	15.2
July	10.2	16.5

(Data source: NPCI)

- **Microfinance and Self-Help Groups (SHGs)**

Microfinance and Self-Help Groups (SHGs) are vital components of financial inclusion, especially in rural areas. The National Bank for Agriculture and Rural Development (NABARD) has been instrumental in promoting SHGs under the Self-Help Group-Bank Linkage Program (SHG-BLP). As of March 2023, over 12.4 million SHGs were linked with banks, with a loan disbursement of INR 4.87 trillion.

Table 3: SHG-Bank Linkage Program Statistics (2023)

Parameter	Value
Total SHGs Linked with Banks	12.4 million
Loan Disbursement (INR trillion)	4.87
Number of Women SHGs	10.2 million
Cumulative Savings (INR billion)	396.5

(Data source: NABARD and RBI)

- **Financial Literacy**

Despite the progress in financial inclusion, financial literacy remains a significant challenge. Many individuals, particularly in rural areas, lack the knowledge and understanding of basic financial products and services. The Reserve Bank of India (RBI) and other institutions have initiated various financial literacy programs to bridge this gap. The National Centre for Financial Education (NCFE) conducts a National Financial Literacy Assessment Test (NFLAT) for school students to promote financial literacy from a young age.

Table 4: Financial Literacy Programs (2023)

Program	Target Group	Number of Beneficiaries
National Financial Literacy Assessment Test (NFLAT)	School Students	1.2 million
RBI Financial Literacy Camps	Rural Populations	3.5 million
NCFE Financial Literacy Workshops	College Students	0.8 million

(Data source: National Centre for Financial Education (NCFE))

V. GOVERNMENT INITIATION TAKEN FOR FINANCIAL INCLUSION IN INDIA

The Government of India has undertaken several significant initiatives to promote financial inclusion, aiming to provide affordable and accessible financial services to all citizens, particularly those in underserved and rural areas. These initiatives are designed to ensure that every citizen has access to basic financial services, such as savings accounts, credit, insurance, and pension schemes. Below are some of the key government initiatives for financial inclusion in India:

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**

  Launched in August 2014, the Pradhan Mantri Jan Dhan Yojana is one of the most comprehensive financial inclusion programs in the world. The scheme aims to provide universal access to banking facilities, with at least one basic savings bank account for every household. PMJDY offers several features, including zero-balance accounts, a RuPay debit card, and an overdraft facility. As of 2023, the scheme has opened millions of bank accounts, significantly reducing the number of unbanked citizens in India.

- **Pradhan Mantri Mudra Yojana (PMMY)**

  Launched in April 2015, the Pradhan Mantri Mudra Yojana aims to provide financial support to micro and small enterprises, which are critical for economic growth and employment generation. Under PMMY, loans up to ₹10 lakh are provided to non-corporate, non-farm small/micro enterprises. The scheme is divided into three categories—Shishu, Kishore, and Tarun—depending on the loan amount. PMMY has helped millions of small businesses gain access to credit, thereby contributing to their growth and expansion.

- **Digital India Initiative**

  The Digital India initiative, launched in 2015, plays a crucial role in advancing financial inclusion by promoting the adoption of digital technologies. Through this initiative, the government has focused on increasing the penetration of digital payment systems, expanding the reach of mobile banking, and improving internet connectivity in rural areas. The introduction of the Unified Payments Interface (UPI) and the Bharat Interface for Money (BHIM) app has revolutionized digital payments, making them more accessible and secure for the masses.

- **Direct Benefit Transfer (DBT)**

  The Direct Benefit Transfer program aims to streamline the distribution of subsidies and welfare payments by directly transferring funds into the beneficiaries' bank accounts. This initiative reduces leakage, ensures timely payments, and enhances transparency. DBT has been instrumental in ensuring that government subsidies, such as those for LPG (under the PAHAL scheme) and other social welfare programs, reach the intended recipients efficiently.

- **Atal Pension Yojana (APY)**

  Launched in 2015, the Atal Pension Yojana is a pension scheme targeted at the unorganized sector workers, who constitute a significant portion of India's workforce. Under APY, subscribers receive a guaranteed minimum pension of ₹1,000 to ₹5,000 per month after the age of 60, based on their contributions. The scheme encourages low-income individuals to save for their retirement and provides a safety net in their old age.

- **Financial Literacy and Education Programs**

  The government has also focused on improving financial literacy as a critical component of financial inclusion. Various programs and campaigns have been initiated to educate people about the importance of savings, credit management, and the use of banking services. The Reserve Bank of India (RBI) and other financial institutions conduct workshops and awareness campaigns, especially in rural areas, to improve financial literacy and empower citizens to make informed financial decisions.

- **Expansion of Banking Infrastructure**

  To ensure that financial services are accessible to all, the government has promoted the expansion of banking infrastructure, particularly in rural and semi-urban areas. The establishment of bank branches, automated teller machines (ATMs), and banking correspondents (BCs) in underserved regions has helped bridge the gap between the banked and the unbanked population. Additionally, the introduction of Payment Banks and Small Finance Banks has further strengthened the financial inclusion landscape by offering specialized services to low-income groups and small businesses.

- **Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**

  These are affordable insurance schemes launched in 2015 to provide life and accidental death/disability insurance to the masses. PMSBY offers accidental death and disability coverage, while PMJJBY provides life insurance coverage. These schemes are designed to increase insurance penetration among low-income groups, ensuring that financial risks are mitigated for vulnerable populations.

- **Stand-Up India Scheme**

  Launched in April 2016, the Stand-Up India scheme aims to promote entrepreneurship among women and Scheduled Castes/Scheduled Tribes (SC/ST) by facilitating bank loans between ₹10 lakh and ₹1 crore for setting up greenfield enterprises. This initiative focuses on empowering disadvantaged groups by providing them with access to credit and encouraging self-employment.

- **Other measures**

The Reserve Bank of India has taken various steps to increase the level of financial inclusion in India. Moreover, Reserve Bank of India alsoaims to provide various benefits of banking services to unbanked population in India especially rural populations. Table 6 (refer toappendix) provide the detailed summary of several steps taken by RBI to increase the financial inclusion in India.

- Table 6 clearly shows that there is a significant rise in number of Banking Outlets (branches and BCs), Basic Savings Bank Deposit

  Accounts (BSBDAs), overdraft facilities, volume and trade through KCC & GCC and transactions through Information Communication Technology (ICT) based Business Correspondence channel, etc. from year 2019 to 2020.
- There is a growth of 0.345304 % in Total Banking Outlets in Villages from year 2019 to 2020.
- Basic Savings Bank Deposit Accounts (BSBDAs) shows a growth of 4.562 % (No. in Lakh) and 19.475 % (Amt. in Crore) respectivelyfrom year 2019 to 2020.
- Overdraft facility in the above basic Savings Bank Deposit Accounts (BSBDAs) shows a growth of 8.47 % (No. in Lakh) and 19.41 %(Amt. in Crore) respectively from year 2019 to 2020.
- There was a fall in KCC of 3.25 % (No. in Lakh) and 4.33 % (Amt. in Crore) respectively from year 2019 to 2020.
- There was a growth in General Credit Cards of 68.33 % (No. in Lakh) and 11.20 % (Amt. in Crore)

respectively from year 2019 to 2020.

- Transactions through Information Communication Technology (ICT) based Business Correspondence channel shows a growth of 53.75% (No. in Lakh) and 47.23 % (Amt. in Crore) respectively from year 2019 to 2020.

VI. CHALLENGES

Despite the substantial progress, several challenges remain in achieving comprehensive financial inclusion in India. These challenges include:

- **Low Penetration in Rural Areas**: Although there has been a significant increase in access to financial services in rural areas, a considerable gap remains.
- **Financial Literacy**: A lack of financial literacy continues to hinder the effective utilization of financial services.
- **Digital Divide**: While digital payments have surged, the digital divide in rural and semi-urban areas poses a challenge to widespread adoption.
- **Credit Access**: Access to formal credit remains a challenge for small businesses and low-income individuals.

VII. OPPORTUNITIES

- **Technology-Driven Solutions**: Fintech innovations and digital banking can further bridge the gap in financial inclusion.
- **Public-Private Partnerships**: Collaboration between the government, private sector, and non-governmental organizations can enhance the reach and impact of financial inclusion initiatives.
- **Focused Policy Measures**: Continued policy support from the government and regulatory bodies will be crucial in sustaining the momentum of financial inclusion.

VIII. CONCLUSIONS

These government initiatives have significantly contributed to improving financial inclusion in India by expanding access to banking services, promoting digital payments, and ensuring that financial products are available to all citizens, especially those in rural and underserved areas. The continued focus on financial inclusion is expected to further reduce poverty, enhance economic participation, and drive overall economic growth in the country. India's financial inclusion landscape has transformed significantly over the past decade, driven by a combination of government initiatives, technological advancements, and policy measures. While challenges remain, particularly in rural penetration and financial literacy, the progress made thus far provides a strong foundation for further advancements. Continued efforts and innovation will be essential to ensure that financial inclusion becomes a reality for all citizens.

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