

Impact of financial inclusion for growth of Indian economy

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Abstract - Financial Inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. Financial inclusion is a key driver of sustained and balanced economic growth which helps reduce income inequality and poverty. While we have made tremendous strides in this area over the years, the pandemic has created new challenges and complexities. The financial system will have a crucial role to fulfill the inclination and needs of our economy.

Financial inclusion broadens the resource base of the financial system by developing a culture of savings among immense segment of rural population and plays its own role in the process of economic development. Further, by bringing low-income groups within the parameter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

Index Terms – Financial Inclusion, Economic growth and Development.

INTRODUCTION

Financial inclusion intensifies the financial system of the country widely. It reinforces the accessibility of economic resources. Mostly, it strengthens the concept of savings among poor people living in both urban and rural areas. This way, it contributes towards the progress of the economy in a consistent manner.

Many poor people tend to get cheated and sometimes even exploited by rich landlords as well as unlicensed moneylenders due to the vulnerable condition of the poor people. With the help of financial inclusion, this serious and hazardous situation can be changed.

Financial inclusion engages in including poor people in the formal banking industry with the intention of

securing their minimal finances for future purposes. There are many households with people who are farmers or artisans who do not have proper facilities to save the money that they earn after putting in so much effort.

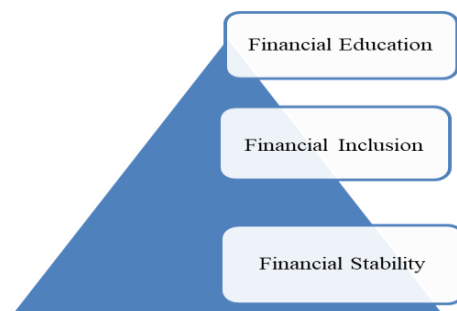
OBJECTIVE OF STUDY

The present study will focus on to strengthen the economic growth of the India and also various steps taken by Reserve bank of India to facilitate financial inclusion.

RESEARCH METHODOLOGY

The study is mainly descriptive in nature and various studies on this subject have also been referred in this study. The data is mainly collected from secondary sources like magazines, internet websites, journals etc.

FINANCIAL LITERACY INITIATIVES



- Financial education, financial inclusion and financial stability are three elements of an integral strategy, as shown in the diagram above. While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services

offered by banks and other institutions. Going forward, these two strategies promote greater financial stability.

- Financial Stability Development Council (FSDC) has explicit mandate to focus on financial inclusion and financial literacy simultaneously

Digital financial inclusion is on rise; efforts towards improving financial literacy

- The concept of financial inclusion has evolved over a period and in recent times, the biggest boost to financial inclusion in the country has come from various initiatives under Digital India, banking facilities, simplification of procedures relating to financial instruments, etc.
- 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, such as net banking, mobile banking, debit cards, credit cards, prepaid instruments, mobile wallets, among others) grew by 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 in April 2015 to 106.18 million in April 2017. Similarly, 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; RBI 2020).
- As a result, anyone with a valid bank account and mobile phone can make quicker and easier payments. On the back of the increased access, India's UPI (Unified Payment Interface), the country's real-time payment system which instantly transfers funds between two bank accounts using mobile apps of banks and other third parties (e.g., Google Pay), has gone from processing 17.9 million digital transactions per month in 2016 to 1.3 billion per month in 2020.
- Our previous articles have explored the evolution of digital payment systems and the increasing volume of digital transactions in the country in detail. The articles highlight both the adoption of digital payment systems and that the volume and value of digital transactions have

significantly increased in the country and continues to grow.

- While India has made great strides in the journey towards financial inclusion, recently with the advent of digital payment systems, there are notable digital divide and financial literacy concerns in the country. The most common barriers include lack of skills among the stakeholders to use digital services, infrastructural issues, teething problems between various systems, and low-income consumer's inability to afford the technology required to access digital services.
- In terms of advancing financial literacy, the government's ongoing efforts under Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA) (which aims to train one person per household i.e., 6 crore persons in rural areas on digital literacy) were suffering from a paucity of funds. Against this backdrop, the Parliamentary Standing Committee on IT submitted its report on the review of the National Digital Literacy Mission (NDLM) with a host of recommendations.

DEVELOPMENTS

Financial Inclusion journey of the country can be traced back to the 1950s when the focus was on channelizing of credit to the neglected sectors of the economy and weaker sections of the population. This was followed by various initiatives over the years such as expansion of branch network, introduction of Priority Sector Lending(PSL), launch of Lead Bank Scheme, promotion of Self-Help Groups(SHG), Joint Liability Groups (JLGs), implementation of Business Correspondents (BC) model, among others. The brick-and-mortar branches, complemented by the BC model, have improved the reach of the banking system across the country. The spread and reach of financial inclusion have indeed been exponential in recent years. The evolution and adoption of technology has led to massive improvement in deepening of digital financial services.

The Jan Dhan, Aadhaar and Mobile (JAM) eco system has brought about a major shift in the universe of financial inclusion. Further, several initiatives have been taken for the creation of enabling digital

infrastructure at the ground level so as to universalize digital payments in a convenient, safe, secure and affordable manner. Given the latent potential of harnessing value at the bottom of the pyramid, we have seen a plethora of players emerging in the field, ranging from traditional banks, niche financial entities such as payments banks, small finance banks, micro finance institutions (MFIs) and promising fintech companies.

In order to have a planned and structured approach to financial inclusion, banks have been advised by RBI to put in place financial inclusion plans (FIPs) consisting of achievements against several parameters. Substantial progress has been made with respect to these parameters, details of which are given in the Reserve Bank's Annual Report released in May 2021. Greater focus is now being given to addressing the vulnerable segments of the economy and population, while paying attention to consumer protection and enhancing capacity of customers, so that responsible and sustainable use of financial services can be achieved. The introduction of differentiated banks catering to the unique needs of varied population groups was a step in that direction. In the recent past, the challenges that have engaged our attention are

1. how to identify the customer;
2. how to reach the last mile; and
3. how to provide relevant products which are affordable and safe catering to diverse needs.

The digital ID (Aadhaar) along with the proliferation of mobile phones with world class payment systems have addressed the first two challenges of access and usage to a large extent. The third challenge i.e. quality requires both demand and supply side interventions. Opening of Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts has enabled millions of Indians to have access to financial services, with a basic bouquet of financial products. This has addressed the supply side issue to a considerable extent. The demand side interventions focused on creating awareness amongst the public. Financial literacy, customer protection and grievance, redressal have become areas of focus for furthering sustainable financial inclusion. Setting up of National Centre for Financial Education (NCFE) by the Regulators and implementation of the Centre for Financial Literacy (CFL) project of RBI are two recent initiatives towards improving financial literacy. Payment systems are seen to be lifeline of an economy.

They are increasingly being recognized as a means of achieving financial inclusion and ensuring that economic benefits reach the bottom of the pyramid. It is quite well known by now that India is among the leaders in the world with regard to development of state-of-the-art payment infrastructure and products leading to a wider adoption of digital payments. To give an example, the number of Prepaid Payment Instruments (PPI) increased at a compounded annual growth rate (CAGR) of 53 per cent from 41 crore in May 2017 to 226 crore in May 2021. The trends indicate that such instruments have become immensely popular for making small value payments.

The movement towards digital payments has also been facilitated by the introduction of fast payment systems, such as Immediate Payment Service (IMPS) and Unified Payment Interface (UPI), which provide immediate credit to beneficiaries and are available round the clock. The extent of digital penetration can be gauged from the fact that, each day on an average during June 2021, the payment systems in India processed more than 15 crore transactions amounting to nearly ₹4.5 lakh crore per day. The UPI platform facilitating payment transactions through smartphones has revolutionized the payment landscape in India. UPI has witnessed over 280 crore transactions in June 2021. Globally, there has been lot of interest in UPI. Similarly, the Aadhaar enabled Payments System (AePS) facilitates fund transfers/payments and cash withdrawals through micro-ATMs and BCs using Aadhaar authentication. During the pandemic, cash transactions at BC outlets through micro-ATMs have witnessed significant surge with more than 94 crore transactions accounting for ₹2.25 lakh crore during 2020-21

CONCLUSION

Financial inclusion promotes inclusive growth by way of making financial services including credit and other safety nets available to the bottom of the pyramid. Lessons from the past and experiences gained during the COVID-19 pandemic clearly indicate that financial inclusion and inclusive growth reinforce financial stability. Greater financial literacy and education, together with sound consumer protection mechanisms will ensure that people at the bottom of the pyramid are empowered to take informed financial decisions. There is need for accelerated universal

reach of bank accounts along with access to financial products relating to credit, investment, insurance and pension. It is the responsibility of all stakeholders to ensure that the financial ecosystem (including the digital medium) is inclusive and capable of effectively addressing risks like mis-selling, cyber security, data privacy and promoting trust in the financial system through appropriate financial education and awareness, more innovative ideas and thoughts to enhance the process of financial inclusion in the country.

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