

General Studies-3; Topic: Inclusive growth and issues arising from it.

Financial Inclusion in India

1) Introduction

- Financial inclusion is to bring the common people into the formal channel of the economy, thereby ensuring that even the last person in the queue is not left out from the benefits of economic growth.
- It refers to delivery of banking services to masses including privileged and disadvantaged people at an affordable terms and conditions.
- It is important priority of the country in terms of economic growth and advancement of society.

2) Advantages

- The poor are encouraged to invest in various financial products and can borrow from formal channels.
- Increases the amount of available savings, the rate of capital formation, and thereby allows the tapping of new business opportunities.
- Helps government plug leakages in public subsidies and welfare programmes as the government can directly transfer the subsidy amount into the account of the beneficiary.
- Reduce the gap between rich and poor population.
- Boost the financial condition and standards of life of the poor and the disadvantaged population
- Helps in implementing social security schemes
- Lowers transaction costs for daily economic activities
- Enables the creation of a buffer for emergencies
- Better monitoring and regulation of financial transactions using digital technology.

3) Recent Initiatives to provide financial inclusion

- JAM — Jan Dhan, Aadhaar and Mobile.
- To provide social security to all citizens - Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).
- Under Atal Pension Yojana a monthly pension is guaranteed to the subscriber.
- To expand the network of ATMs, the RBI has allowed non-bank entities to start White Label ATMs.
- Banks are deploying micro ATMs in rural areas
- RuPay Cards have significantly increased its market share
- Financial Literacy Centres were started by commercial banks at the request of the RBI.
- Financial inclusion of women through the implementation of its biometric identification system 'Aadhar'
- Unified Payments Interface (UPI) platform built by the National Payments Corporation of India (NPCI).

4) Lack of financial inclusion

- **4 Major reasons for lack of financial inclusion**
 - a. Inability to provide collateral security
 - b. Poor credit absorption capacity
 - c. Inadequate reach of the institutions
 - d. Weak community network

- The lack of financial inclusion is costly to the individual as well as to society as a whole.
- In the informal banking sectors, the interest rates are higher and the amount of available funds are smaller.
- Any dispute between lenders and borrowers cannot be settled legally.

5) **Challenges**

- In India, where nearly one-fourth of population is illiterate and below the poverty line, ensuring financial inclusion is a challenge.
- Due to this, ensuring deposit operations in the jan dhan accounts is a challenge.
- Fraud due to illiteracy
- Money lenders continue to account for nearly 30 per cent of total banking business.
- Most of commercial banks operate only in commercial areas. Therefore rural population find it difficult to access the financial services.
- A lot of hidden bank charges have demotivated poor persons in availing financial services.
- Making banking accessible for people with disabilities.

6) **Way Forward**

- A financial inclusion strategy sensitive to regional, demographic and gender related factors needs to be carefully crafted.
- NABARD has an extensive presence across the country, it should be made the nodal and accountable agency for financial inclusion.
- Requires grass-root level research as to why people prefer to go to moneylenders, despite a network of banks, cooperatives, MFIs and SHGs
- Proper financial inclusion regulation in the country to access financial services
- Financial Inclusion is necessary before comprehensive success of Mobile Wallets.
- As India uses Aadhaar to advance financial inclusion, the government must examine and put into place a robust regime for data protection.
- Financial services must be made accessible for people with disabilities at par with non-disabled people.