

# FINANCIAL INCLUSION IN INDIA - PRESENT SCENARIO AND FUTURE CHALLENGES

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**Abstract:** This study digs into the complex environment of financial inclusion in India, attempting to understand the current situation and foresee future issues. The study's aims include an in-depth discussion of the idea of financial inclusion, an analysis of the current level of financial inclusiveness in India, an exploration of the potential for its development, and the creation of suggestions to move financial inclusion forward.

The study begins by analyzing the core concept of financial inclusion, emphasizing its importance to all persons in a fast changing economic environment. A critical examination of the current situation takes place, examining the efficiency of government measures like the Jan Dhan Yojana in boosting savings accounts, particularly in rural areas. The study examines digital literacy, awareness, and last-mile delivery.

The study looks ahead, anticipating obstacles that could stand in the way of development. It emphasizes how important it is to work together to improve last-mile delivery, raise awareness, and address digital literacy, particularly in rural areas. The study acknowledges the critical role that technology plays in promoting financial inclusion and suggests strategies to get over obstacles, with a focus on data integration, privacy issues, and the delivery of customized services. The study concludes by highlighting the progress that has been done over the last six years, recognizing the beneficial effects of government programs, and stressing the need for future efforts. The study imagines a time when everyone has access to financial services, even in the face of current obstacles. It is the goal of the research to assist stakeholders, financial institutions, and governments in promoting

**Key Words:** Fintech Services, Banking Services, Insurance, digital Payments, and Financial Inclusion

## I. INTRODUCTION

The financial sector acts as a multiplier factor and intermediary for economic stability. In Asian country a massive amount of society is grieving of access to formal money services thanks to that they need to depend upon informal sources of finance that bears huge price. Therefore, consultants from banking region and government known desire of some initiatives which may be loyal towards provision of banking services to economically weaker sections of the society in 2005, the then Governor of Federal

Reserve Bank of Asian country (RBI) Reddy coined the term money inclusion. As an issue of fact, he used the statement by chance interpretation it for an expression used in RBIs report as wealth *Figure 1: Financial Inclusions (Author Source)* exclusion. For a rural economic process is a very important goal to supply quality life to the voters. The economic growth ought to be comprehensive growth as well as the excluded. The policy manufacturers these days understand that development is uneven if the countries don't address the matter of exclusion in an exceedingly massive means. The biggest challenges the world faces these days square measure difference and exclusions.

While not addressing these challenges, Comprehensive growth is a distant dream. To realize the comprehensive economic process, the benefits of a growing economy should be extended to all or any segments of the society, Growth is comprehensive. once it takes place in the sectors in that the poor work (e.g. Agriculture); occurs in places wherever the poor live (e.g., underdeveloped square measure with few resources); uses the factors of production that the poor possesses (e.g., Unskilled labor); and reduces the costs of consumption of things that the poor consume (e.g., Food, fuel, and clothing). For this money inclusion is the key for comprehensive growth.

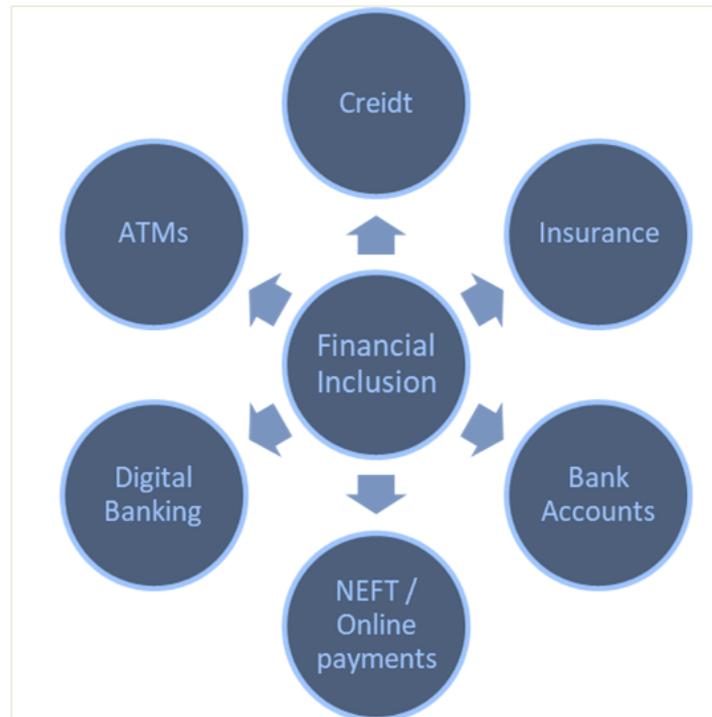


Figure 2: Financial Inclusions (Author Source)

## II. REVIEW OF LITERATURE

Monetary inclusion will be understood as Associate in attention necessary cornerstone of economic development. An analysis conducted on monetary inclusion reveals that for raising the economic condition of economically weaker sections of society initiatives towards monetary inclusion are indispensable. It includes a wide selection of activities like savings and insurance and isn't restricted to extension of credit facilities (Dev, 2006).

additional in 2005, a study was conducted within which it absolutely was found that if monetary services of low margins are provided to an awfully sizable amount of individuals, it should cause nice amounts of profit. to market monetary inclusion amongst low financial gain teams, it's necessary for banks to readdress existing business ways. Additionally, thereto, for meeting the target of monetary inclusion, all types of obtainable resources together with technology must be exploited (Leeladhar, 2005).

In 2008, Sriram and Sundaram conducted a study in rural areas of Vellore district of Madras to spot and analyze varied determinants of monetary inclusion. The researchers additionally know the explanations for lower variety of bank accounts by collection information from twenty village blocks of Vellore. By victimization index of monetary inclusion and share analysis, it absolutely was realized that monetary inclusion was at mid-range of zero.55 for Vellore. The most important reasons for lack of monetary access were known as state, lower acquirement levels and lower financial gain levels (Sundaram and Sriram, 2008).

In another study meted out in the province, sure necessary facts were disclosed. The study was supported by a report that claimed that there was monetary inclusion up to 100% in Gulbarga district. However, the study highlighted that bank accounts weren't opened underneath the monetary Inclusion Program however rather were opened underneath the theme of NREGP. Consequently, there was a lower level of awareness amongst the rural poor regarding monetary inclusion plans.

The study understood the necessity of accelerating monetary acquirement amongst rural plenty (Ramji, 2009). run batted in has additionally listed monetary acquirement mutually of the aspects of monetary inclusion rack as shown in figure two. run batted in ordered down 3 principles/pillars which can guide the trail towards accomplishment of inclusive growth. whereas the most focus was on monetary inclusion, different 2 principles/pillars were used as a foundation for attaining the primary objective. in a very race study conducted by 2 researchers, it absolutely was found that there's a powerful co relational statistics between level of monetary inclusion and level of human development.



By victimization monetary inclusion index planned by Sarma in 2008, the researchers established an undeniable fact that financial gain of a private (being measured by per capita GDP) is a very important consider explaining the degree of monetary inclusion. except for this other factors additionally came into lightweight like adult acquirement levels, urbanization, and financial gain difference (Sharma and Pias, 2011)

**Objectives of the study:**

- To study the concept of Financial Inclusion.
- To study current scenario of financial inclusion in India.
- To study the scope of financial inclusion in India.
- To recommend instrument to advance financial inclusion in India.

**III. RESEARCH METHODOLOGY**

In this Research conducted Descriptive study that relies on secondary awareness. It is an attempt to explore concepts on the thought and study the recent development. The secondary knowledge is collected from analysis papers, thesis, book, tally reports and newspaper article etc.,

**Current Scenario of Financial Inclusion**

Above 80% Indians currently have bank accounts. Narendra Modi government's Jan Dhan Yojana was supposed to enlarge financial inclusion by creation banking extra accessible to the poor. The Jan Dhan Yojana, launched by the Modi government in August 2014, further condensation to processes ongoing as part of the Reserve Bank of India's roadmap for phased financial inclusion.

Strong and energetic funds establishment's region unit the pillars of economic development, progress, and achievement of modern economies. Lack of accessible, reasonable, and acceptable financial services has forever been a globe drawback. For that reason, the significance of associate degree comprehensive national economy is broadly acknowledged not exclusively in India nation, however, has become a policy priority in several countries. money access will very improve the grade and standards of lifetime of the poor and the underprivileged.

So, run has been perpetually encouraging the banking sector to develop the banking association each through appropriate of latest branches, installation of latest ATMs, implementation of EBT and in addition through BC model by leverage upon the data and communication technology (ICT). This article focuses on the run and GoI initiatives and policy measures, current standing and future prospects of economic inclusion in India nation on the premise of facts and information provided by varied secondary sources. it's finished that money inclusion shows positive and valuable modifications owing to change in strength and technological changes.

Therefore, adequate provisions ought to be inherent within the business model to confirm that the poor aren't driven faraway from banking. these needs coaching the banks forefront workers and managers yet as business correspondents on the human facet of banking.

**The Initiative Towards Extend Financial Inclusion in India.****a) Pradhan Mantri Jan Dhan Yojana (Jan Dhan-Aadhar-Mobile (JAM) Trinity)**

- ❖ The recipe of Aadhaar, PMJDY, and a course in cell phone message has reshaped the way public access supervision services.
- ❖ As per the estimate in March 2020, the sum number of beneficiary under **Jan Dhan Scheme** have been > 380 million.
- ❖ By considerably altering the idea of person uniqueness, Aadhaar has not only brought about a make safe and effortlessly verifiable method but also simple to gain as well to facilitate in the financial inclusion practice.
- ❖ The government has also launched many flagship schemes to promote financial inclusion and provide financial security to empower the poor and unbanked in the country. Figure 2 shows the growth rate of PMJDY.
- ❖ These include the **Pradhan Mantri Mudra Yojana, Stand- Up India Scheme, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, and Atal Pension Yojana.**

## Steady Progress: Pradhan Mantri Jan Dhan Yojana

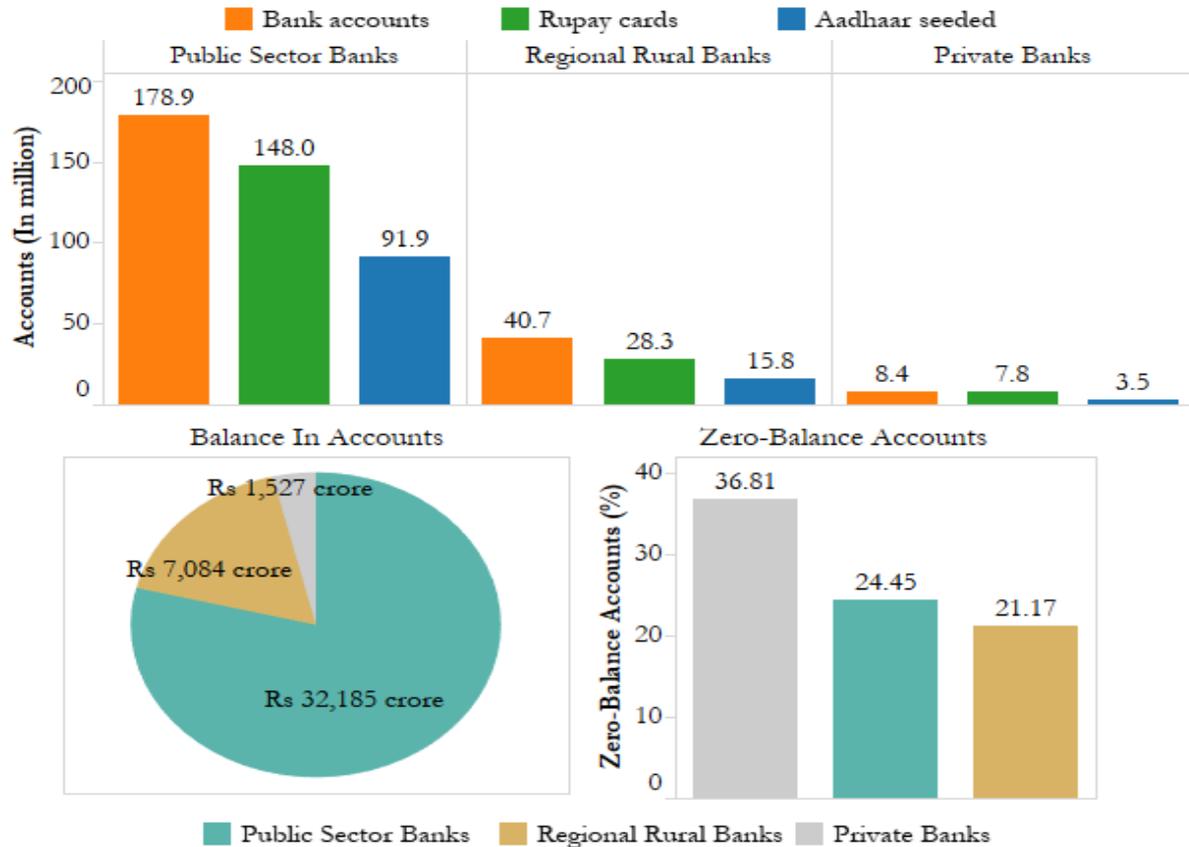


Figure 3: Pradhan Mantri Jan Dhan Yojana Progress (Source: Scrol.in Article 77million women were added into banking system )

### b) Digital Identity (Adhaar)

In modern times, the major incentive to the efforts of financial inclusion has approach from Digital India. Diverse initiatives below Digital India, like effortless banking conveniences for everyone, generalization of events recounting to financial instruments like Permanent Account Number (PAN), unique identification process of Aadhaar, simplification of tax measures. throughout the goods and services tax (GST), etc, have contributed extensively to the efforts of financial inclusion in the nation.

### c) National Centre for Financial Education (NCFE)

To encourage financial culture across India for all sections of the residents as per the nationalized scheme for monetary culture of Financial Stability and enlargement assembly. To generate financial knowledge and empowerment through financial culture campaigns across the nation for all sections of the inhabitants through seminars, workshops, conclaves, instruction, programmes, campaigns, conversation forums with/without amount by itself or with help of institutions, organisations and provide training in financial instruction and produce financial education objects in electronic or non-electronic formats, workbooks, worksheets, literature, pamphlets, booklets, flyers, technical aids and to prepare appropriate financial literature for target-based spectators on financial markets and financial digital modes for getting better financial literacy so as to progress their information, accepting, skills and competence in finance.

### d) Centre for Financial Literacy (CFL) Project

The Reserve Bank of India has undertaken a project titled "Project Financial Literacy". The Objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defence personnel and senior citizens.

**e) Expansion of Financial Services in Rural and semi – Urban Areas.**

Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) have taken initiatives to encourage financial inclusion in rural areas.

- ❖ These comprise the opening of bank branches in remote areas.
- ❖ Issuing Kisan Credit Cards (KCC)
- ❖ Linkage of self-help groups (SHGs) with banks.
- ❖ Escalating the number of automated teller machines (ATMs)
- ❖ Business correspondents' model of Banking, etc.

**f) Zero Balance Account**

a. In India, a variety of banks have successfully introduced several smart features to make their bank accounts popular. Amongst these features comprise the zero balance savings account, wherein there is no pressure to have a minimum balance.

b. Several banks began this feature as a effect of the Government of India's initiative of providing savings bank accounts to all general public below the Pradhan Mantri Jan Dhan Yojana (PMJDY).

c. In common, a zero-balance savings account is a kind of account where the person doesn't have to sustain any minimum balance. At times, because maintaining a minimum balance can be a tough task, particularly for those who are extra of a payer than a saver, having this kind of account helps substantially.

d. Thus, a popular of Indian banks enable clients to open such accounts and start their savings drive.

**g) Promotion of Digital Payments**

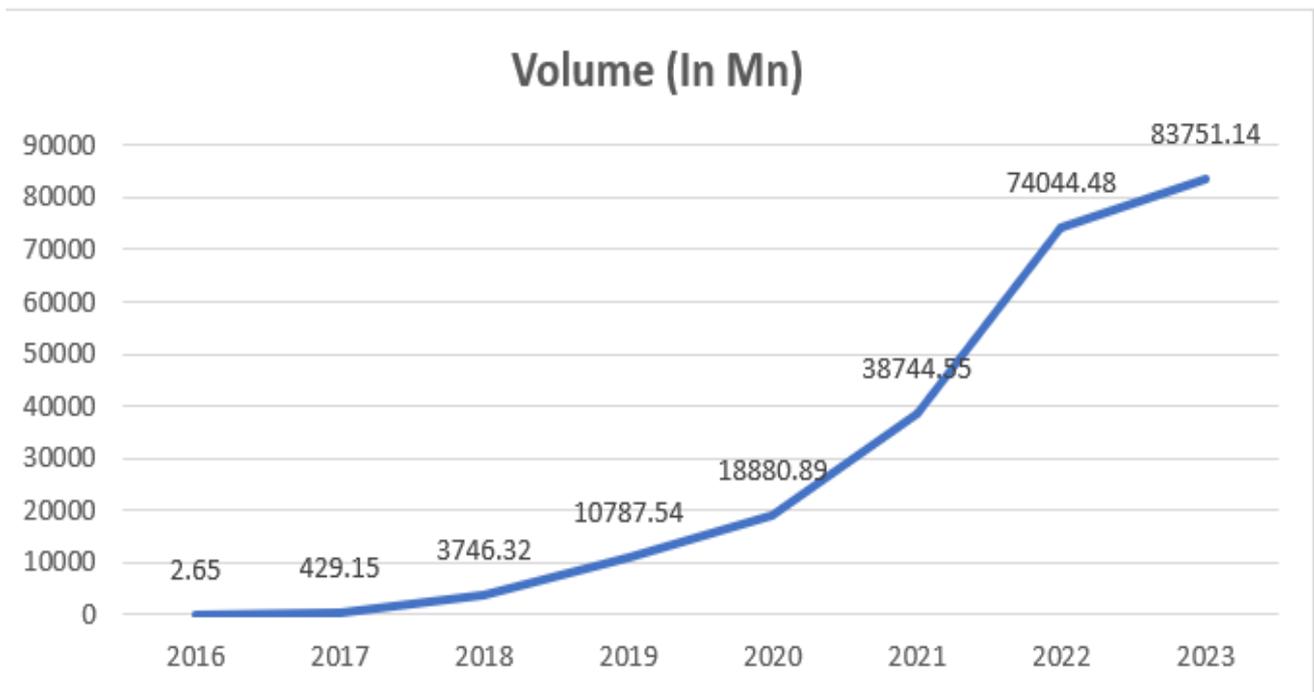


Figure 4: Digital payment Growth Rate (Source: NIC (National Information centre))

With the support of the **Unified Payment Interface (UPI)** by NPCI, digital payments have been made safe, compared to the history. The Aadhar-enabled payment system (AEPS) enables an Aadhar enabled bank account (AEBA) to be used at any position and at any time, using micro-ATMs.

The payment scheme has been prepared more available outstanding to offline transaction-enabling platforms, like **Unstructured Supplementary Service Data (USSD)**, which makes it possible to use cellular phone banking services without internet, even on a basic cell phone handset.

Table 1: List of Private Banks Branches

List of Private Banks	Number of Branches	Number of ATMs
Axis Bank	4094	17315
Bandhan Bank	1000	485
Catholic Syrian Bank	426	290
City Union Bank	600	1724
DCB Bank	323	4,99
Dhanlaxmi Bank	269	3,46
Federal Bank	1252	1598
HDFC Bank	4787	13514
ICICI Bank	4882	15159
IDBI Bank	1892	3693
IDFC First Bank	301	216
IndusInd Bank	1004	2662
Jammu & Kashmir Bank	958	1322
Karnataka Bank	835	1503
Karur Vysya Bank	668	1641
Kotak Mahindra Bank	1369	2429
Lakshmi Vilas Bank	570	1045
Nainital Bank	135	–
RBL Bank	342	–
South Indian Bank	852	1393
Tamilnad Mercantile Bank Limited	509	1156
Yes Bank	1050	1305

Table 2 : List of Small Finance Bank

Bank Name	Establishment	Branches
Airtel Payments Bank	2017	
Fino Payments Bank	2018	410
India Post Payments Bank	2018	650
Jio Payments Bank	2018	
NSDL Payments Bank	2018	

Table 3: List of Private Payments Banks

Bank Name	Established	Branches
Ujjivan Small Finance Bank	2017	464
Jana Small Finance Bank	2018	
Equitas Small Finance Bank	2016	412
AU Small Finance Bank	2017	396
Capital Small Finance Bank	2016	
Fincare Small Finance Bank	2017	
ESAF Small Finance Bank	2017	400
Northeast Small Finance Bank	2017	
Suryoday Small Finance Bank	2017	
Utkarsh Small Finance Bank	2017	

#### IV. FUTURE CHALLENGES OF FINANCIAL INCLUSION

- ❖ In the realm of financial inclusion, individuals who are initially included often find themselves excluded due to various reasons, including general or health-related factors (Malladi Et al, 2021).
- ❖ A distinct digital divide exists, with some tech-savvy individuals easily accessing and understanding services, while those in semi-urban and rural areas struggle to efficiently utilize technology (Marco J 2018).
- ❖ Limited financial literacy and awareness about financial cybercrimes have led to a general lack of trust among rural populations, resulting in reduced digital adoption (Warhamni & Rahmi N 2021).
- ❖ The sustainable implementation of last-mile delivery models, particularly in rural areas, faces challenges due to multiple government and business agencies trying to reach the same location for various purposes related to financial inclusion, social welfare, and healthcare, resulting in higher costs.
- ❖ Government-held data, such as healthcare schemes data, social inclusion data, COVID data, and vaccination data, is not fully utilized due to a lack of coherence between these different data elements.
- ❖ Last-mile technological systems and artifacts are susceptible to exposure and exploitation. They are often handled with insufficient security measures by BC (Business Correspondent) or BF (Business Facilitator) agents, leading

to fraudulent activities on the ground. In 2017, about 22% of BC agents experienced fraud, a significant increase from 2% in 2015 (Marco J 2018). The business model of the last mile and BC agent network must be reevaluated with a focus on privacy, security, and safety.

- ❖ Data privacy remains a major concern as a substantial amount of captured data is readily available to various stakeholders due to inadequate adherence to Personally Identifiable Information (PII) norms. KYC data and mobile numbers are easily accessible.

- ❖ Some BC agents illicitly capture biometric data in clay, replicating it later for fraudulent purposes.

- ❖ Another method involves providing manual receipts instead of computerized ones during transactions.

- ❖ SMS messages for account transactions do not reach customers due to a lack of mobile devices (with over 310 million people not owning basic feature phones or smartphones) or financial institutions not sending messages for low-value transactions. Consequently, there is an increased reliance on local agents.

- ❖ Access to credit remains a concern, as small-time lenders charging high interest rates are prevalent in rural areas. Government schemes have not fully penetrated, necessitating greater rural outreach to improve credit access (Malladi CM 2020). Additionally, there is a lack of avenues for digital lending and online loans from reputable financial institutions.

- ❖ Individualized recommendations based on specific requirements are currently unavailable. By leveraging personalized data and utilizing AI & ML analytics, banks can offer loans, insurance, and other services tailored to customers' needs and credit scores (Malladi CM 2020).

### **Recommend instrument to advance financial inclusion in India.**

To advance financial inclusion in India, a variety of financial instruments and technologies can be employed. Here are some key instruments that can play a crucial role:

1. **Digital Payment Systems:** Promote and expand the use of digital payment systems like Unified Payments Interface (UPI), mobile wallets, and Aadhaar-enabled payment systems. These platforms make transactions easier and more accessible, especially for those without traditional bank accounts.

2. **Mobile Banking:** Encourage the adoption of mobile banking by providing user-friendly mobile applications that cater to diverse linguistic and literacy levels. Mobile banking can bring basic financial services to remote areas with limited physical infrastructure.

3. **Microfinance:** Expand microfinance institutions (MFIs) to provide small loans and financial services to low-income individuals and small businesses. MFIs have proven successful in extending credit to those without access to formal banking channels.

4. **Agent Banking:** Facilitate the growth of agent banking networks, allowing trained agents to provide basic financial services in remote and underserved areas. Agent banking can bridge the gap between traditional banking and the unbanked population.

5. **Government Schemes:** Integrate financial inclusion efforts with existing government welfare schemes, such as direct benefit transfers (DBT) and social security programs. This ensures that beneficiaries have access to formal banking services for receiving subsidies and benefits.

6. **Credit Agencies:** Strengthen credit information systems and credit bureaus to enhance credit assessment processes for individuals with limited formal credit history. This can help lenders make more informed lending decisions, increasing access to credit.

7. **Financial Education:** Implement comprehensive financial literacy programs to educate individuals about managing money, understanding financial products, and making informed decisions. Improved financial knowledge leads to better utilization of financial services.

8. **Fintech Solutions:** Promote and support the growth of fintech companies that develop innovative solutions for financial inclusion. Fintech platforms can provide easy access to credit, savings, insurance, and investment options.

9. **Social Security Nets:** Design and implement inclusive social security schemes that provide financial protection to vulnerable segments of society, such as farmers, women, and the elderly.

10. **Collaborative Partnerships:** Foster collaboration between the government, banks, fintech firms, NGOs, and other stakeholders to create a unified approach towards financial inclusion. Joint efforts can leverage expertise, resources, and reach.

11. **Alternate Credit Scoring:** Encourage the use of alternate credit scoring models, such as using utility bill payment histories and mobile usage data, to assess creditworthiness for individuals lacking formal credit records.

12. **Banking Correspondents (BCs):** Expand the network of banking correspondents who act as agents on behalf of banks, providing various banking services at the doorstep of customers, especially in rural areas.

By integrating these financial instruments and technologies into a cohesive strategy, India can make significant progress in advancing financial inclusion and ensuring that all citizens have access to essential financial services.

**Findings:**

- ❖ People included in financial inclusion often get excluded due to various reasons.
- ❖ There is a digital divide, with tech-savvy individuals and others struggling to use technology efficiently.
- ❖ Lack of financial literacy and awareness hinders rural populations' trust in digital services.
- ❖ Last-mile delivery faces challenges due to overlapping efforts and high costs in rural areas.
- ❖ Data integration and coherence between government datasets need improvement.
- ❖ Last-mile security vulnerabilities result in fraud incidents.
- ❖ Data privacy concerns persist, with personal information easily accessible.
- ❖ SMS transaction notifications are not reaching all customers, affecting transparency.
- ❖ Access to credit remains limited in rural areas with high-interest lenders.
- ❖ Personalized financial services based on individual data are lacking.

**V. CONCLUSION**

In conclusion, the study on the present scenario and future challenges of financial inclusion in India highlights the multifaceted nature of this crucial aspect of economic development. The integration of various financial services into the digital realm has revolutionized the way transactions are conducted, with nearly 70% of financial activities occurring online. Government initiatives such as zero-balance accounts and Jan Dhan Yojana have significantly increased the number of savings bank accounts, particularly in rural areas.

However, challenges persist, especially in addressing issues related to digital literacy and awareness, particularly in remote regions. While the growth rate of financial inclusion has been commendable over the past six years, efforts should be intensified to ensure that every individual, regardless of location or literacy level, has access to financial services. The promotion of initiatives by the government and the private sector is essential to achieving 100% financial inclusion in the future.

To overcome hurdles, emphasis should be placed on enhancing digital literacy, raising awareness, and improving last-mile delivery of financial services, especially in rural areas. The government's commitment to initiatives like Jan Dhan Yojana has laid a foundation, but sustained efforts are necessary to address challenges related to data integration, privacy concerns, and the need for personalized services. The study underscores the significance of continued dedication to financial inclusion, as it is fundamental to economic growth and development, ensuring that every citizen has the opportunity to participate in and benefit from the financial landscape of the country.

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