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Financial Inclusion

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INTRODUCTION

The world of Finance has undergone a major paradigm shift in recent times. The present government has taken many initiatives in this direction. Some of these initiatives were needed long back but it did not happen. So as a country we today think "better late than never". This thought come to our mind as the initiative have been very beneficial and will give a number of benefits in the years to come. It will make India a force to reckon in the global arena. That is actually required if we have to grow as an economy and make a positive impact in the world. The economically underprivileged people of the society were kept away from these services on the pretext that they fail to meet the minimum requirements laid down by the banks. These people it was permanently presumed may also not have proper documents to provide to the banks for verification of identity or income. Every bank has certain mandatory documents that need to be furnished during a loan application process or during a bank account creation process. Many of these people do not have knowledge about the importance of these documents. They also do not have access to apply for government-sanctioned documents. For several years, only the middle and high classes of the society procured formal credit from the banks and would conveniently siphon off the money because of government or political clout that they enjoyed. Poor people were forced to rely on unorganized and informal forms of credit that was extremely costly and harmful in the long run. Many of them were uneducated and did not have basic knowledge about finance and hence, they got cheated by the greedy and rich people of the society. Several poor people have been exploited for years in the context of financial assistance. There was a strong need to have an environment that could make financial services available to all and were not kept in an area that was earmarked for a few. The primary aim of financial inclusion was to include everybody in the society within the sphere of financial services by giving them basic financial services without looking at a person's income levels or past and future saving potential. In this sense financial inclusion chiefly focuses on providing reliable financial solutions to the economically underprivileged sections of the society without having any unfair treatment. It intends to provide financial solutions without any signs of inequality. It is also committed to being transparency while offering financial assistance without any hidden transactions or costs.

Understanding Financial Inclusion:

1) Financial inclusion refers to the process of ensuring that all individuals, especially the underserved and marginalized populations, have access to affordable and appropriate financial services. It aims to empower people with tools such as savings accounts, credit, insurance, and digital payment options. Thus, enabling them to participate in the formal financial system, manage their finances, and build economic resilience which is very critical for every citizen of a growing and expanding Economy.

2) Financial inclusion is when everyone can access financial services that can help them build wealth, including savings, credit, loans, equity, and insurance.

3) Financial Inclusion is described as the method of offering banking and financial solutions and services to every individual in the society without any form of discrimination between the citizens, something that we have been guilty of doing for many years after our independence.

Characteristics of Financial Inclusion:
The following are the basic characteristics of Financial Inclusion

1) It is a process concerned with the financial sector and aims a giving it a much needed fillip.
2) Financial inclusion wants everybody in the society to be involved and participate in financial management judiciously.
3) It aims at including a large number of poor households in India that did not have access to financial service sector of the country.

4) The aim is to spread awareness about Financial Services across the length and breadth of the country without any kind of discrimination.
5) A lot of the population is devoid of banking industry and their functions. Even if they are aware of banks, many of the poor people were deprived of their services and thus did not have access to get their services, with no reason given for their being deprived.
6) These sections of the society were kept away from banking services on the pretext that they may not meet minimum eligibility criteria laid by banks and hence, they will not be able to secure a bank's services.
7) The laid down requirements such as minimum income, minimum credit score, age criteria, and minimum years of work experience were never intentionally amended to deprive them the services of the Banking industry.
8) A bank was thus not able to provide a deposit or a loan to an applicant only because he or she was away from these criteria. The fact is many of the poor people may be unemployed without any previous employment record due to lack of education, lack of resources, lack of money, etc. But no attempt was made to bring then closure to these services. In fact the amended were avoided so that these services remained the privilege of the rich.
9) Financial inclusion aims to eliminate these artificially created barriers and provided economically priced financial services to the less fortunate sections of the society so that they can be financially independent without depending on charity or other means of getting funds that are actually not sustainable.
10) Financial inclusion also intends to spread awareness about financial services and financial management among people of the society.
11) It wants to develop formal and systematic credit avenues for the poor people.

LITERATURE REVIEW

01. The world bank undertook a series of bWorking Papers through team of Authors **Demirguc-Kunt, Asli; Klapper, Leora; Singer, Dorothe; Singer, Dorothe** in 2017 and titled it as **Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence**. The paper talked about the growing evidence that appropriate financial services have substantial benefits for consumers, especially women and poor adults. This paper provides an overview of financial inclusion around the world and reviews the recent empirical evidence on how the use of financial products -- such as payments services, savings accounts, loans, and insurance -- can contribute to inclusive growth and economic development. This paper also discusses some of the challenges to achieving greater financial inclusion and directions for future research.

02. A study titled **Role of banks in financial inclusion in India undertaken by Badar Alam Iqbal and Shaista Sami in April-June 2017** dealt with financial inclusion is emerging as a new paradigm of economic growth that plays major role in driving away the poverty from the country. It refers to delivery of banking services to masses including privileged and disadvantaged people at an affordable terms and conditions. Financial inclusion is important priority of the country in terms of economic growth and advances of society. It enables to reduce the gap between rich and poor population. In the current scenario financial institutions are the robust pillars of progress, economic growth and development of the economy.

The present study aims to examine the impact of financial inclusion on growth of the economy over a period of seven years. Secondary data is used which has been analyzed by multiple regression model as a main statistical tool. Results of the study found positive and significant impact of number of bank branch and Credit deposit ratio on GDP of the country, whereas an insignificant impact has been observed in case of ATMs growth on Indian GDP.

03. Antonella Francesca Cicchiello, Amirreza Kazemikhasragh, Stefano Monferrá & Alicia Girón did a research titled "Financial inclusion and development in the least developed countries in Asia and Africa" in December 2021.

The purpose of this paper was to investigate the relationship between the financial inclusion index and development variables in the least developed countries in Asia and Africa by using annual data of 42 countries for the period 2000–2019. The pooled panel regression and panel data analysis technique are used to explore this relationship. The empirical finding of the research indicated that economic growth leads to financial inclusion. Unemployment and literacy rates are among the factors contributing to financial inclusion, and it is observed that women are more vulnerable than men are to lack financial inclusion. In less developed countries, the economy relies heavily on agriculture, and people are less financially inclusive when they live in rural areas of these countries. Also, pay inequality reduce the prospects of financial inclusion rates and has a negative impact on development. The low financial inclusion rate reduces the levels of development in these countries. The results of this study lead to the development and empowerment of the vulnerable groups in the studied countries. In order to improve the conditions for development, policymakers should consider policies that enhance literacy, eliminate gender inequality and increase pay equality.

04. World Bank Research titled Advancing Women's Financial Inclusion in Mexico - Policies and regulations to promote women's financial inclusion is a research done by the **World Bank in June 2023.** The objectives are were to review international best practices for the design of policies and regulations to promote women's financial inclusion.

Review Mexican financial regulation and recent diagnostics to identify opportunities to foster women's financial inclusion through policies and regulations. Identify two or three priority reforms with UBVA support, and jointly prepare a roadmap for the implementation of activities aimed at these reforms.

05. This is a policy research paper done by the World Bank and titled -Experimental Evaluation of a Financial Education Program in Elementary and Middle School Grades done in June 2023. This paper investigates whether providing financial education in elementary and middle school grades improves students' financial proficiency and actual behavior. It uses a cluster randomized control trial to evaluate a pilot program implemented in 101 Brazilian municipal schools in 2015. The findings show positive impacts on financial proficiency, mainly among middle school students, and suggestive evidence of improvements in short-term behavioral outcomes. However, the analysis indicates that the program did not impact students' school achievements in both the short and longer terms, which suggests that the program's effects were not strong enough to shift students' behavior decisions.

06. Peter J. Morgan Victor Pontines undertook a study on behalf of the Asian Development Bank Institute undertook a Working Paper Series titled Financial Stability and Financial Inclusion. This paper concluded that the Developing economies are seeking to promote financial inclusion, i.e., greater access to financial services for low-income households and firms, as part of their overall strategies for economic and financial development. This raises the question of whether financial stability and financial inclusion are, broadly speaking, substitutes or complements. In critical question enquired in these working Papers was does the move toward greater financial inclusion tend to increase or decrease financial stability in an economy. A number of studies have suggested both positive and negative ways in which financial inclusion could affect financial stability, but very few empirical studies have been made of their relationship. This partly reflects the scarcity and relative newness of data on financial inclusion. This study contributes to the literature on this subject by estimating the effects of various measures of financial inclusion (together with some control variables) on some measures of financial stability, including bank non-performing loans and bank Z-scores. We find some evidence that an increased share of lending to small and medium-sized enterprises (SMEs) aids financial stability, mainly by reducing non-performing loans (NPLs) and the probability of default by financial institutions. This suggests that policy measures to increase financial inclusion, at least by SMEs, would have the side-benefit of contributing to financial stability as well.

Need for Financial Inclusion:

According to the concept of financial inclusion, the credit aspect is given priority under which a low-income individual is provided proper access to emergency loans, consumer loans, housing loans, and business livelihood loans at affordable rates.

The goal of financial inclusion is to provide access to basic financial services such as savings, credit, insurance, and payments to people who need it, in order to improve their economic well-being and empower them to participate fully in the economy. Some of the financial inclusion schemes launched in India include:

Pradhan Mantri Jan Dhan Yojana (PMJDY):

PMJDY is a National Mission on Financial Inclusion that tries to attain the purpose of providing universal banking access to all the citizens of the country while ignoring their Financial status. Its basic aims is to ensure weaker sections and low-income groups have access to financial services such as deposit accounts, remittance, credit, banking/savings, insurance, and pensions. The Prime Minister had described the occasion as a festival to celebrate the liberation of the poor from a vicious cycle.

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):

It is a government-backed life insurance scheme for all the individuals having a savings bank account. This scheme has one-year cover Term Life Insurance Scheme renewable from year to year, offering life insurance cover for death due to any reason. There is lien period of 30 days from 01.06.2021 except accidental death. Before 1st June 2021, the lien period was 45 days from the date of enrolment in the scheme.

Pradhan Mantri Suraksha Bima Yojana (PMSBY):

The Scheme is available to all people in the age group 18 to 70 years with a bank account who give their consent to join / enable auto-debit on or before 31st May for the coverage period 1st June to 31st May on an annual renewal basis. Aadhaar would be the primary KYC for the bank account. The risk coverage provided under the scheme is Rs.2 lakhs for accidental death and full disability and Rs. 1 lakhs for partial disability. The premium of Rs. 20 per annum is to be deducted from the account holder's bank account through 'auto-debit' facility in one installment. The scheme is being offered by Public Sector General Insurance Companies or any other General Insurance Company who are willing to offer the product on similar terms with necessary approvals and tie up with banks for this purpose

Pradhan Mantri Mudra Yojana (PMMY):
The PMMY was launched in April 2015 by the Prime Minister. The Scheme aims to enable Micro Finance Institutions (MFIs), Non-Banking financial institutions/Companies (NBFCs), Small Finance Banks, RRBs (Regional Rural Banks), Commercial Banks, Cooperative Banks, etc. to provide low rate loans to eligible entities.

Aadhaar Enabled Payment System (AePS):
Aadhaar Enabled Payment System (AePS) is a bank led model which allows online interoperable financial inclusion transaction at Point of sale (Micro ATM) through the Business correspondent of any bank using the Aadhaar authentication and can get information on balance enquiry, cash withdrawal, remittances through a Business Correspondent.

This system of electronic payment was launched in 2010 and uses biometric identification to enable individuals to receive and make payments through their unique Aadhaar number. AePS is a payment system which was introduced with an aim to empower people from all parts of the society by making banking and financial services available to them. This payment system makes it possible to initiate payments through the unique identification number.

Direct Benefit Transfer (DBT):
The process of directly transferring the subsidy amount and making other transfers directly into the account of beneficiaries rather than providing it to government offices is known as DBT. This scheme was launched in 2010 and enables the government to directly transfer subsidies and other benefits to the bank accounts of beneficiaries. This scheme has been instrumental in reducing corruption and improving the efficiency of delivery.

07. Atal Pension Yojana (APY):
Atal Pension Yojana (APY), a pension scheme for citizens of India is focused on the unorganized sector workers. Under the APY, guaranteed minimum pension of Rs. 1,000/- or 2,000/- or 3,000/- or 4,000 or 5,000/- per month will be given at the age of 60 years depending on the contributions by the subscribers.

Sukanya Samriddhi Yojana (SSY):
Sukanya Samriddhi Yojana is a saving scheme by Government of India, which is aimed at the betterment of girl child in India. It has been launched to help parents build a fund for the higher education and other expenses of their girl child.

Credit Enhancement Guarantee Scheme for Scheduled Castes (CEGS - SCs):
The objective of this scheme is to promote the financial inclusion of SC entrepreneurs and motivate them towards further growth of SC communities. It aims to facilitate the economic development of SC entrepreneurs thereby developing direct and indirect employment generation for the SC population in India.

Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives:
The Venture Capital Fund for Scheduled Castes Entrepreneurs is the only Scheme to promote entrepreneurship amongst the Scheduled Castes and to increase financial inclusion for SC entrepreneurs to motivate them for further growth in the society. It aims to provide concessional finance to them. Under this scheme of financial inclusion, IFCI will set up a Venture Capital Fund for Scheduled Castes. It proposes to provide an initial capital of Rs. 200 Crore, which can be supplemented every year The said allocation was under Social Sector Initiatives has been done promote entrepreneurship among the scheduled castes and to provide concessional finance to them.

Varishtha Pension Bima Yojana (VPBY):
The scheme provides pension in the form of immediate annuity during the lifetime of the pensioner with return of purchase price to the family/nominee on his/her death. The mode of payment of pension can be monthly, quarterly, half-yearly or yearly. The pension payment shall be through ECS or NEFT.

It is an Immediate Annuity Plan with a single premium option where the annuity starts immediately after premium payment and lasts throughout the pensioner's life. Anyone above 60 years of age could invest in this scheme to start earning a pension as soon as they retired.

OBJECTIVES OF FINANCIAL INCLUSION

a) Financial inclusion intends to help people secure financial services and products at economical prices such as deposits, fund transfer services, loans, insurance, and payment services, etc.
b) It aims to establish proper financial institutions to cater to the needs of the poor people. These institutions should have clear-cut regulations and should maintain high standards that are existent in the financial industry.
c) Financial inclusion aims to build and maintain financial sustainability so that the less fortunate people have a certainty of funds which they struggle to have.
d) Financial inclusion also intends to have numerous institutions that offer affordable financial assistance so that there is sufficient competition so that clients have a lot of options to choose from. There are traditional banking options in the market. However, the number of institutions that offer inexpensive financial products and services is very minimal.
e) Financial inclusion intends to increase awareness about the benefits of financial services among the economically underprivileged sections of the society.
f) The process of financial inclusion works towards creating financial products that are suitable for the less fortunate people of the society.
g) Financial inclusion intends to improve financial literacy and financial awareness in the nation.
h) Financial inclusion aims to bring in digital financial solutions for the economically underprivileged people of the nation.
i) It also intends to bring in mobile banking or financial services in order to reach the poorest people living in extremely remote areas of the country.
j) It aims to provide tailor-made and custom-made financial solutions to poor people as per their individual financial conditions, household needs, preferences, and income levels.
k) There are many governmental agencies and non-governmental organizations that are dedicated to bringing in financial inclusion. These agencies are focused on improving the access to receiving government-approved documents. Many poor people are unable to open bank accounts or apply for a loan as they do not have any identity proof. There are so many people who live in rural areas or tribal villages who do not have knowledge about documents such as PAN, Aadhaar, Driver's License, or Electoral ID. Hence, they cannot avail many of the services offered by governmental or private institutions. Due to lack of these documents, they are unable to avail any form of subsidies offered by the government that they are actually entitled to.

Additional steps initiated under the Financial Inclusion Policy:
In addition to the above policies the government even focused on these additional measures to ensure that the benefit of Financial Inclusion every desirable section of the society.

Goals of Financial Inclusion for Women Empowerment:
Financial inclusion for Women Empowerment focused on the financial management activities of every household. Financial inclusion firmly believed that women are more capable of handling finances efficiently when compared to men of a house, simply because of their concern for having a happy family life. Hence, financial inclusion activities were made to target women by helping them get started engaging in financial management activities for the benefit of the family.

There are many houses where women are not permitted to be involved in managing money. They are controlled by the men of the house and are asked to take care of only the domestic chores. In fact, many conservative people in India believe that women are not capable of handling money efficiently so they are kept away from financial issues. With the help of financial inclusion, the government, as well as non-governmental agencies, intended to get rid of this mentality once and for all. It was through financial inclusion that the Government wanted to encourage women to take up more employment opportunities and become financially independent and become a party to the financial management decisions of a family. It also drove the point that women will not have to rely on men for money as was the case so far. They also do not have to wait for men's permission to do enter into various financial matters.

In other words, financial inclusion intended to empower women belonging to low-income groups by increasing their financial awareness. Women were also taught the simple ways to save their money for a good future. For this they were provided with exposure to multiple affordable savings instruments and also taught about the various forms of credit available in the market. These credit avenues would help them start up a new small business venture or take up a training course to apply for a new occupation. This would certainly increase their monthly income.

Financial inclusion also aimed at making many women get mobile phones for their own use. In several parts of the nation, only men had their own mobile phones and women had to depend on these men for using a mobile phone. But over the past few years, women started to own mobile phones and have started to use them for work purposes, business purposes, and managing their financial affairs. Many of them have started utilizing digital modes of payment and other financial operations using their mobile phones. This has simplified and quickened their financial transactions.

The idea of financial inclusion has been encouraging banks and other financial institutions to assist the unbanked sections of the society. Many of these institutions are also focusing on making women financially independent by providing special rates and exclusive discounts or other benefits to this section of the society. Many banks charge subsidized or discounted interest rates to women for their loan products. For savings accounts offered by certain banks and non-banking financial corporations, women depositors gain more interest on their deposits when compared to men. All this is changing the face of Indian female customers and making them more financially independent.

Financial Inclusion with the Help of Financial Technology (Fintech):
Financial technology (Fintech) deals with utilizing advanced technology in the financial industry or the financial sector.

With the introduction of financial technology or Fintech, financial inclusion is steadily improving extensively across the whole world. In this regard India is not lagging behind s a lot of Fintech companies that are constantly working towards simplifying the process of providing financial services to their present and prospective clients. Fintech companies have also been extremely successful in offering financial services and products at a minimal cost. This is very helpful to customers as their expenses are low and they can distribute their savings to their other needs too.

Financial technology companies are enabling people in rural areas to apply for loans or open bank accounts by using their mobile phones. Several people in Indian rural places have mobile phones and some of them have access to mobile internet and, they can make use of Fintech services to get extremely reliable and efficient financial services.

A few of the latest Fintech options that are used by individuals include crowd funding, digital payment systems, peer-to-peer (P2P), electronic wallets, etc. Many people both in rural and urban areas are utilizing these advanced options of banking. However, there are still many people who are untouched by this technology and do not have any experience with banking or any other financial institution. For such people, it is tough to use any mobile-based financial service that use technology that users are not very familiar with..

When many of these poor people engage in financial transactions using either cheques or cash, they face the risk of getting cheated by financial scammers. Also, when they visit the bank branches or branches of NBFCs to open a deposit or to apply for a loan, they may end up paying high fees at the branch. These fees or charges can be processing fees, transaction fees, money order fees, etc. In order to save poor people from such high expenses for availing financial services, banks, NBFCs, and Fintech companies are collaborating together to come up with simpler and quicker banking processes that will be effective in eliminating unnecessary fees and charges. The evolvement of such processes will be very helpful in including the under-banked or un-banked people of the society.

Financial Inclusion using Digital Payment Systems:
This helps in making payments for products and services in their residential regions with the help of electronic payment wallet systems. The Government of India has launched several electronic wallet systems through smart phone apps such as Bharat Interface for Money (BHIM), Aadhaar Pay, and lots more!

These Electronic wallets or e-wallets refer to wallets that can be used with the help of electronic means such as smart mobile phones, other electronic gadgets, etc. These wallets replace physical wallets. A user can make cashless payments through online as well as offline means. He or she will need to download the e-wallet app on their mobile phone and utilize it to make transactions. These e-wallets can be utilized for mobile recharges, utility bill payments, grocery stores, e-commerce portals, etc. Many digital financial tools offer attractive offers and discounts when people make use of these tools. These are very helpful and new to the economically under privileged sections of the society. They can enjoy offers; receive cash back options, and rewards and incentives that help a user save a lot of money while making Digital Payments.

Impact of Demonetization on Financial Inclusion:
With the sole objective of making Indian economy completely cashless in the next few years, the government has introduced inexpensive e-wallet options so that the less fortunate people of the nation do not excluded from this facility.

The biggest advantage provided by the e-wallets was they use regional languages apart from English, as a tool of communication. This enables the users to select the language that he or she knows and make use of the app effectively and conveniently. Some of these e-wallets not only allow a user to make payments, but also enable them to transfer fund from one bank account to another easily.

With the implementation of the demonetization process in India in the year 2016, the need for having dependable digital financial services was felt and arose. The ban on usage of the notes of Rs.500 and Rs.1,000 resulted in increasing the demand for alternative modes of payment for various goods and services. Hence, the number of digital wallets kept increasing extensively in every nook and corner of the country, making them the most preferred payment avenue. The goal of the Indian government is to attain the objective of making the nation cashless and hence, the high number of digital wallets are effectively and conveniently helping the government in attaining the goal of going cashless. Moreover, there was a rise in the transaction limit for electronic wallets to Rs.20,000. This is great news for both users and e-wallet companies. The customers were not required to carry cash to the market and the e-wallets got flushed with funds, helping them to lower the cost of transactions.

Many customers belonging to the low-income groups also started to utilize electronic wallet options as they did not have any other choice left, is one can say this without hesitation. It is true that a lot of them struggled initially with the demonetization process. Several middle-class and low-class people were left stranded when the demonetization process came into effect all of sudden. However, the introduction of multiple digital banking and financial services served as a great boon to all economic classes of the society accompanied with increase in internet and Wi- Fi facilities. Several low-income people, unemployed people including people who were illiterate living in both rural and urban areas started to learn about how to open a bank account, how to apply for credit, how to use technology for various banking services, and how to avail the financial services without standing in long queues, and how to carry out transactions without carrying cash in hand.

Understanding the risks, opportunities, and challenges of Financial Inclusion:
Financial inclusion can provide immense economic and social benefits to the economy by allowing those customers who were previously deprived or excluded from participating in the global economy. The term 'financial inclusion has been used increasingly lately, thanks to the transformative power of Fintech, i.e., that use the digital channels and mobile technology from providers such as Banking Services to provide essential financial services to underserved populations in emerging countries, poorer sections of society and those with limited resources or low levels of literacy. We now make efforts to explore the risks, opportunities, and challenges involved. According to the World Bank's Global 2021 Findex Report, more than 1.4 billion adults worldwide have no access to formal banking channels, financial products and services, transactions, payments, savings, credit, and insurance, etc.

Risks associated with financial inclusion:
The provision of formal banking services to the underserved population of the country has a very high potential to alleviate poverty and stimulate the much needed economic growth in the country. However, the risks associated must be identified and managed effectively so that the te planned initiatives with much hindrance. The risks identified include:

Consumer protection risks:
When low-income consumers are given access to financial products and services for the first time, they may lack knowledge or understanding needed to make well-informed decisions about using these different financial products available. This leads to their falling prey to scams, unscrupulous lenders, or poor financial decisions that can cost the customers immensely in the long run. Therefore, ensuring and providing financial education, strong awareness, and proper on boarding, training, and protection measures are put in place before they are given regular and timely access of the required services. Another issues faced by the consumer here is the risk due to fraud, identity theft, or misuse of funds.

This is obviously more risky for them as they do not have resources that can be lost to such risks.. As more individuals gain access to financial services, the possibility of abuse also increases. For example, Say the funds are not properly audited and managed, there is a greater risk of acts like corruption or money laundering that involve transferring large sums of money from one country to another without adequate scrutiny and checks. As a result, governments and organizations need to ensure proper safeguards and strong eKYC are in place to minimize these risks that are so common in these transactions. Digital banking solution providers offer very reliable and secure eKYC services that can assist in achieving this goal easily and comfortably.

Strategic risks: As is the case with all new initiatives, there is always a possibility of risk that all financial inclusion initiatives may not succeed as planned. The reason for this can be due to incorrect and wrong target market selection, poor market timing, and unrealistic expectations from the customer base selected, major regulatory changes brought about, and inadequate planning and execution of the entire process. Therefore, it is important and necessary to consider all these factors before proceeding with any plan of the financial inclusion initiatives.

Operational risks: Financial inclusion initiatives often require the customers to work with new intermediaries and partners. This can lead to increased operational, legal, frauds, and reputational risks for the customers. This calls for a need for appropriate due diligence to be carried out on all new intermediaries and partners before entering into agreements and executing the required transactions.

Financial risks: It is often observed that banks are not be able to assess accurately whether borrowers will be able to make regular payments on loans taken or mortgages done due to a lack of data or resources available in certain areas or countries.

If the borrowers default, it could lead to serious implications for lenders and borrowers alike as it could lead to higher loan losses for lenders, leading to increased interest rates for lenders to recoup their losses. It also reduces the future ability of the lenders to lend.

In addition to the risks listed above some experts worry that the increased availability of credit cards/BNPL, voracious lending apps, could lead consumers into unnecessary debt if they are not able to pay off their dues regularly due to high-interest rates attached to these products.

Opportunities associated with financial inclusion:
Financial inclusion also offers a number of opportunities for individuals and organizations alike. For example, by providing essential banking services such as savings accounts or microloans, individuals can build up their credit scores over time and become eligible for larger loans at better or competitive rates. Financial Inclusion has made it possible for hundreds and millions of customers to access the essential and commonly required financial services such as savings accounts, credit cards, mortgages, microcredit, and loans, the ability to sell and receive money from anyone and anywhere through UPI, is helping the customers help their achieve their goals easily And conveniently. In addition, financial inclusion also leads to an all-round economic growth in the country by increasing consumer spending, investment opportunities, and collection of taxes thus improving the revenue for governments, and opening up the economy leading to more job creation.

Additionally, organizations that promote financial inclusion can also benefit from increased donations and trust amongst their customers due to their focus on various social responsibility initiatives. Financial inclusion measures also create a number of social benefits, and can help reduce poverty and inequality in countries where these issues are prevalent. By providing easier access to banking services access, it helps the people to save a lot of resources, which can then be used for providing healthcare benefits through insurance, education, or other business opportunities. This can help them break out of the cycle of poverty and improve their quality of life significantly and change the image of the country in the global arena.

DIMENSIONS OF FINANCIAL INCLUSION

The level of financial inclusion in India is measured on the basis of three broad, tangible and critical dimensions that impact its effectiveness. These dimensions are broadly discussed under the following heads:

Branch Penetration:
Penetration of a bank branch is measured as number of bank branches per one lakhs population. This high figure is considered because of a very high density of population in the country. It basically refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population of he country.

Credit Penetration
Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

Deposit Penetration
Deposit penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of formal credit system can be analyzed.

Among the above three dimensions of financial inclusion discussed above, credit penetration is the key problem facing the country as the all India average in this respect ranks the lowest for credit penetration compared to the other two dimensions. Such low penetration of credit is the result of lack of access to credit among the rural households. Therefore, the problem of low penetration needs to be understood more deeply. The progress in the development of financial inclusion in India can be examined by understanding the stages involved in it. The concept of examining financial access became important immediately after the All-India Rural Credit Survey that was completed in the 1950s. The results of the survey revealed that farmers relied heavily on money-lenders in the year 1951-52. Only the urban areas had large number of bank branches and not the rural areas. Such a condition continued in the country until RBI started financial inclusion growth model in the 2000s. Because the urban areas were fully concentrated with numerous bank branches, it resulted in the higher absorption of bank credit in the urban areas. The growth of the private business credit was seen in the year 1957-61 from 44 percent to 60 percent in the year 1970. Thus, for increasing the level of financial inclusion, the GOI and RBI have taken few actions which include the following:

a) Nationalization of Indian banks (1969, 1980)
b) Focus on Priority Sector Lending to help the rural population requirements
c) Establishment of Regional Rural Banks (RRBs) (1975, 1976) with focus on rural areas(1989)
d) Encouraging Self-help group-bank linkage program (1989, 1990).

Challenges Associated with Financial Inclusion:

Despite the many benefits generated by Financial Inclusion initiatives it has the potential to create a number of challenges too. These include such factors such as inadequate infrastructure, cultural barriers, and high capital investment and costs.

These need to be addressed well before they become widespread across the length and breadth of the country. The fact is many developing countries lack adequate infrastructure, such as reliable and regular electricity supply and unlimited and inexpensive broadband / 4G and 5G Internet services, making it difficult for individuals to access essential banking services or securely make online payments without any fear involved. On the other hand even factors such as the prevailing cultural norms, religious beliefs, old habits such as preference for cash and dependence on money lenders for getting loans, prevalent misconceptions about the untested services or mistrust towards digital banking may prevent certain users from taking full advantage of new technology made available. Finally, the high costs associated with providing these services may keep organizations hesitant from investing massively in them. Fortunately, digital banking solution providers do offer flexible pricing models based on the number of monthly active users on the Web & Mobile Banking solutions and apps being offered to the consumers for their ease and use.

The major challenges faced funder Financial Inclusion programs were:

a) High rate of Illiteracy in India, where nearly 1/4th of the population was illiterate and below the defined poverty line.
b) Low income and the inability to provide collateral security.
c) Lack of enough bank branches in rural areas continues to be the roadblock to financial inclusion.
d) More reliance on informal lending.
e) Difficulty in understanding the product offerings, financial terms and conditions.
f) A lot of hidden bank charges that demotivated poor persons from availing the financial services.
g) Low-income groups do not see banks as welcoming and believed they were not for them
h) Absence of credible, low-cost and high-quality financial advice to suit their needs and income levels.
i) Women being excluded from the formal financial system in a planned manner.
j) The disabled people find it difficult to access banks and their services.
k) The rising level of Non-Performing Assets (NPAs) of banks due to the large corporate makes it difficult to improve financial inclusion situation in India.

Areas that need improvement to further the Usage of Financial Inclusion:
Banking Initiatives in the Banking Arena: These initiatives are repeatedly taken in the area of banking to make them more dependable and reliable with wider population coverage. It included:

(a) **Formation of Regional Rural Banks (RRBs)**: Based n the recommendations made by the Narasimham Working Group in 1975, Regional Rural Banks were established to serve banking needs of Indian rural masses satisfactorily and effectively.
(b) **Business correspondents:** On this front RBI also permitted banks to engage business correspondents/facilitators who were to provide door-step delivery of financial and banking services to the customers whenever they required the same. This has increased the convenience the customers now enjoy in getting the services easily and help them overcome all the hindrances they were facing so far.

(c) **Shifting the focus on Priority Sector Lending:** The RBI gave an important responsibility to the banks in India and it was providing a portion of their bank loans to few important and critical sectors such as agriculture or small scale industries, so that they do not face any financial constraints and they could continue working effectively and with no dearth of financial resources need for their activities. These were labeled as Priority Sector Lending and this shift in the focus made sure the sectors continued getting timely financial activities.

(d) **Providing the Customers with a No-frills account:** A No-frills account means that bank account which does not require the customer to maintain a minimum bank balance or sometimes face penalty for a low balance in the account, because of which certain restrictions are imposed on operating their bank accounts. This clearly ensured greater ease for the customers in accessing their bank accounts in spite of their failure in maintaining the minimum balance requirements.

(e) **Relaxation in the KYC Norms for opening banking accounts and getting other related services:** Know Your Customer (KYC) requirements for opening bank accounts were phenomenally relaxed for small accounts in August 2005. The opening of bank accounts became even easier with the introduction of Aadhaar. The accounts were linked to Aadhaar facility providing the much needed safety required by banks and the customers the facility of having a bank account.

(f) **Jan Dhan, Aadhaar and Mobile (JAM):** This is a three-pronged strategy adopted under Financial Inclusion whereby based on using digital technologies- Jan Dhan (banking), Aadhaar (Biometric Identity) and Mobile (transactions).

Other initiatives: Establishment of payment banks and small finance banks.

a) Establishment of MUDRA bank to refinance micro-finance institutions to lend to non-formal sectors such as MSMEs through PM Mudra Yojana
b) Financial literacy centres were launched by commercial banks at the request of the RBI.
c) Financial inclusion of women through Aadhaar implementation.
d) Unified Payments Interface (UPI) platform built by the National Payments Corporation of India (NPCI).
e) National Centre for Financial Education was established in 2017 to implement the National Strategy for Financial Education.
f) Self-Help Group (SHG) – Bank Linkage Program (SBLP) was launched by NABARD to provide door-step banking to the poor with the help of SHGs.

Social Security Initiatives:

a) PM Suraksha Bima Yojana (PMSBY): Accidental death cum disability insurance, renewable 1 year, for 18-70 age groups.
b) Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY): Life insurance, renewable 1 year, for 18-50 age group.
c) Atal Pension Yojana: Focus on unorganized sector.
d) Pradhan Mantri Jan Dhan Yojana: PMJDY has ensured universal access to bank account and India now has 180 billion accounts. However, 48% of those accounts haven’t seen any transaction in the last one year.

Merely opening an account does not make sure that the account is used. Instead, the following things can be done for the proper utilization of accounts. Financial literacy program should be undertaken and backed by products that address the real needs of consumers, with the support to use the product. People have to be imparted an ability to understand and execute matters of personal finance such as basic numeracy and literacy, financial awareness, knowledge and skills, attitude and behaviors needed to make sound financial decisions, budgeting, investing and risk diversification.

Suggestions and Recommendations to make Financial Inclusion more Impactful:

Despite 76 years as an independent nation, India is still lagging behind in the process of providing financial services to the masses with nearly half the households remaining out if the banking system, and nearly ninety percent villages not having bank branches at all. The rural masses being devoid of banking services is thus understandable. More importantly, people in these areas do not fully understand why they need a bank account at all. Also they get the much needed loans from the informal sector and fail o appreciate how the formal sector is more beneficial than the informal sector on which they depend for getting financial assistance. This failure to appreciate the role of the formal sector is behind all the ills of poverty they face and do not understand how the formal sector is better than the informal sector. The benefits of a financially inclusive model are many-fold, though the rural population fails to appreciate that. In reality one can say that the unbanked and underprivileged could receive appropriate and timely payments for social benefit and employment schemes through the Direct Cash Transfer program that is a part of the financial inclusion program launched by the Government of India. The government and Reserve Bank of India have been making regular and rigorous efforts since mid

1950's and with renewed strength since 2005 but success has been rather slow mainly due to lack of a strong network, and financial instruments that are not suited to the to the rural residents. Added to that is the lack of awareness and financial literacy among rural population are primarily responsible for low penetration of financial services in these areas. The stress is now on Business Correspondents (BC) utilizing the existing network for banking such as post offices and making efforts to create awareness for the use of banking technologies as well as mobile phones etc. are help them create a big difference in the economy. The proposed solutions that target the above issues and suggest a way forward for sustainable inclusive growth are listed below. There is a need to have granular schemes that could preferably be different for rural and urban areas. Further, distinction be made on the basis of nature of employment of different people. For example, daily wage laborers can be allowed to make tiny deposits on daily basis - a special type of RD scheme for daily wage laborers can be introduced.

Methods of financial literacy require changes like distributing printed literature to audio and visual media such as radio and TV programs, especially in local languages; printed material is of little use to the population due to poor rate of literacy.

Financial literacy needs to be given importance in schools, and student small saving programs, where bankers regularly visit schools and collect small deposits, need to be revived at the earliest. A BC need to be rebranded as a banker against the existing image of a travelling salesman which would enhance the acceptability of BCs among general public. This could be achieved by entering into a contractual arrangement, thereby giving a semi-official status of a bank employee to a BC. This would reduce the attrition rates of BCs and increase their loyalty towards the profession and help attain the targeted objective of financial inclusion exercise. The rebranding exercise of BCs would also heighten participation of females as BCs. The status of a bank employee can help them to counter the commonly faced regressive objections of women acting as being salespeople. Even the possibility of appointing house-wives as well as people with limited handicap as BCs could also be considered as that might reduce the attrition rate and provide a respectable job alternative to them. One can also target retired personnel, school teachers to work as BCs. Since they are known in the village the villagers would accept them readily. Allowing BCs to offer additional financial products like insurance and mutual funds would further expand their scope and importance. Banks should also look at skill development by organizing regular and structured training programs to educate the BCs about the new products and services. The improved BC role as projected above would be effective if the right people are recruited to take up the role. While educational qualifications are required and are essential for the role but are not a sufficient condition. Banks could also carry out rigorous background verification procedures on the prospective candidates to get a clear picture of the prospective BC's trustworthiness and influence in the locality.

Banks can tie-up with India Post to utilize their extensive network by setting up small banking counters at each of their post offices, especially rural branches. The government owned post offices have sufficient space in the post offices to set up such a counter with a computer and printer, to be operated by a commercial bank employee. With existing arrangements at the post offices, these can be converted into extended banking counters. Once the banking extension counters are offered at the post offices, and then fresh opening of accounts in existing postal banking schemes can be discontinued, with a forward-looking approach for banks to spearhead the financial inclusion process, through deposit mobilization. The number of post offices in india is huge. The RBI and the Government should give an IFSC code to the post Offices o that they can mobilize small savings in urban areas too. It will encourage online transactions that urban population is familiar with. This is a monumental task but needs to be done to make post offices more relevant to the entire population. A large part of post office revenues comes from existing postal banking services, the banks would need to pay a "rent fee" to India Post for use of their facilities/premises – hence solving the high fixed cost issue for banks in establishing a new brick and mortar branch Further to leverage the existing relationship with the post offices, banks could seek introduction to potential customers on payment of a stipulated fee. Similar to the post offices, the network of fair price shops can be utilized by launching a joint venture of banks and Food Corporation of India to install devices which will be used for both Public Distribution System (PDS) and banking transactions through smart card and biometric This solution can be enabled in places where the currently PDS is not using the smart card and point of sale (POS) machines. But for the places where these devices are already present the banks can modify them to enable banking transactions with the same smartcards. The launch of common POS will not only ramp up the financial inclusion process but also reduce the cost as the same device is being used for dual purposes.

For encouraging banking habits amongst the unbanked masses we should think of installing audio-video enabled ATMs to announce simple instructions in the local language to assist the customer in the unbanked areas, could be considered. In case such ATMs are installed in the premises of post offices, then trained guards could facilitate withdrawals, deposits and also account opening forms. The issue of security can be addressed by installing inbuilt CCTV cameras in the ATM machine as well as the post office. This not only expands the Financial Inclusion initiatives but also generates employment.

The initiative should also include Common consumer knowledge in rural areas about dialing to a toll-free number should be leveraged to provide introduction to financial literacy as well as instructing people on steps to use mobile banking. The banks should educate their staff and BCs about latest developments in mobile banking, and mandate them to promote these facilities during financial literacy campaigns in rural areas. Banks should also revise their commission schemes, incentivizing BCs in increasing mobile banking registrations in their respective territories.

CONCLUSION

Financial education, financial inclusion, and financial stability are three key elements of financial literacy that ultimately leads to the progress of a nation. Financial inclusion works from the supply side by providing adequate and timely access to various financial services. Financial education, on the other hand, works from the demand side by creating and promoting awareness among the masses regarding the importance and benefits of financial services offered by the banking and the financial sector. These two strategies in combination and perfect sync are essential for the overall financial stability that is crucial for any nation.

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