Drishtikon: A Management Journal
13 (2) 2022, 09-28
http://www.publishingindia.com/drishtikon/

Financial Inclusion - A Strategic Tool to Attain Economic Development

Iti Verma*, Nidhi**, Anica Agarwal***, Harshita Joshi****, Nishtha Jain*****

Abstract

India is one of the fastest growing economies across the globe. The thrust of the New Economic Policy has been towards creating a more competitive environment in order to expand the economic wings of the country. Since 1991, the Indian economy has been progressively enjoying the path of stable economic growth, still, social and financial inequalities have increased alongside. The Government of India and the Reserve Bank of India have been making strategic efforts to promote financial inclusion as one of the important national objectives to attain inclusive growth for the economic development of the country. The present study is conceptual in nature and based on secondary data to analyse the factors that stimulate financial inclusion in the Indian economy. The present study also examines if financial inclusion is a strategic weapon to achieve economic growth and development and recommends strategies to encourage market penetration by financially excluded sections of the society.

Keywords: *Economic Development, Financial Inclusion, Financial Literacy, India, SDGs*

* Assistant Professor, Department of Commerce, Gargi College, Delhi University, Delhi, India. Email: iti.verma@gargi.du.ac.in
** Associate Professor, Department of Commerce, Gargi College, Delhi University, Delhi, India. Email: nidhigupta@gargi.du.ac.in
*** Student, Department of Commerce, Gargi College, Delhi University, Delhi, India. Email: anicaagarwal@gmail.com
***** Student, Department of Commerce, Gargi College, Delhi University, Delhi, India. Email: harshitaj840@gmail.com
****** Student, Department of Commerce, Gargi College, Delhi University, Delhi, India. Email: nishthajain1406@gmail.com

INTRODUCTION

Over the last years, financial inclusion has become one of the most critical issues in the area of monetary policy. Various international conferences, including the conference that the United Nations sponsored in 2019, emphasized the need to provide an adequate level of financial inclusion in the developing and least developed countries, without which individuals and companies are unable to fully participate in the national economy. Financial inclusion thrives to make the financial products and services equally accessible and affordable to all in a responsible and sustainable way.

Financial inclusion is imperative for the economic growth of India and it is looked upon as a strategic tool which interconnects the factors which provide financial services and the factors which create the demand for financial services. Through the assistance of financial inclusion policies of Government of India, financial literacy and an effective consumer grievance redressal mechanism, those potential users who are not presently availing the financial services due to unawareness, fear or lack of resources can be financially included. The formal financial institutions like commercial banks, cooperative banks, insurance and mutual fund companies play a significant role in financial inclusion by the reforms and policies introduced by the government. Alongside the financial markets specifically the capital markets comprising the stock exchanges defines the level of inclusiveness in the economy. At present, financial access facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies which helps to improve the overall quality of their lives. The present study is structured into six sections which includes objectives and conceptual framework of the study, research methodology, explore and analyse the concept of financial inclusion, conclusion, recommendations and followed by limitations of the study.

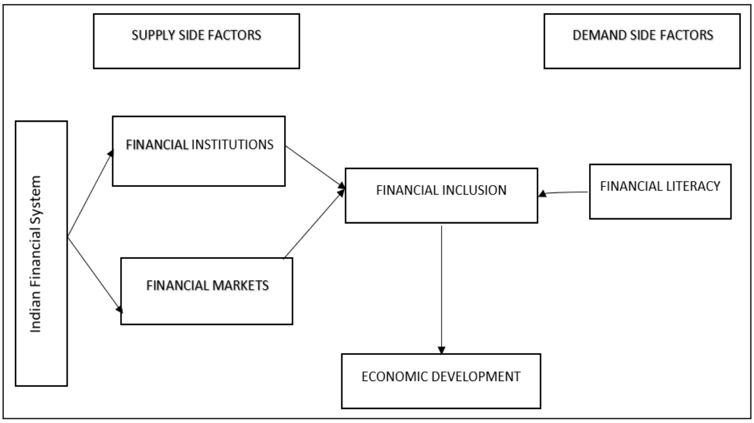
OBJECTIVES OF THE STUDY

- To explore the concept of financial inclusion in Indian context;
- To analyse the supply and demand side factors that promote financial inclusion in the Indian economy;
- To examine if the financial inclusion acts as a strategic tool accomplishing Indian economic growth and development, and

- To recommend strategies which encourage penetration deeply by financially excluded sections of the society.

CONCEPTUAL FRAMEWORK OF THE STUDY

Financial Inclusion is interpreted as a tool which facilitates economic development by acting as a bridge between the forces of the financial system which provide financial products and services (Supply side factors) and those who are the potential investors and generate demand for these products and services (Demand side factors).



Source: Authors' compilation.

Fig. 1: Conceptual Framework

RESEARCH METHODOLOGY

This paper is conceptual in nature. An extensive review of various research papers, books and reports published by financial regulatory bodies has been done by means of secondary data to understand how financial inclusion is an essential tool for the well being of the Indian economy and how it is important for economic development of a nation.

CONCEPT OF FINANCIAL INCLUSION IN INDIAN CONTEXT

The term financial inclusion is gaining great attention nowadays across the globe. Financial inclusion is defined as a "state in which all people of working age have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients" (Chandran, 2010). The term inclusion is not only restricted to the access of a variety of banking products and services but also includes insurance and equity products (RBI, n.d.). The resources required for the development of an economy are generated through savings and investments. Financial inclusion widens the channels for the mobility of resources in the financial system of the economy.

Each country has its own strategy and progress towards financial inclusiveness because of substantial distinctions in the priorities of regulatory bodies, payments infrastructure, culture and beliefs, political system, financial capability of people, financial markets that drive financial behaviour (RBI, 2020). Since the 1950s, the Govt. of India has made a conscious effort for financial inclusion through an informal approach, however, a real momentum started gathering since 1956, with the nationalisation of India's life insurance companies followed by nationalisation of banks in 1969 and 1980 and then evolution of financial markets in India. In the mid-2018, India and other 35 countries adopted a formal National Financial Inclusion Strategy (NFIS) to make a vibrant, active and reliable financial system which helps in the economic growth of a country (RBI, 2020). RBI (2020) has framed some of the important elements to attain financial inclusion in India are as follows: (i) Having a strong long-term vision with a well-coordinated approach is important; (ii) Target-oriented approach should be encouraged i.e., to develop sector specific inclusion policies and then review the progress; (iii) There should be an operative and dynamic regulatory and legal framework in order to protect the interest of the consumers and to promote fair practices; (iv) The process of market broadening and deepening is much needed to cater the needs of the existing and potential target groups; (v) There should be strong payments set-up coupled with regulations can boost healthy competition and orderly growth which result in more customer centric products, increased choices and convenience; and (vi) Large scale campaign to encourage financial literacy and awareness programmes. Sustainable financial inclusion would be a win-win proposal for both those who supply financial resources and those who demand the same and hence, it would also form a part of the broader context of economic inclusion.

ANALYSE THE FACTORS THAT STIMULATE FINANCIAL INCLUSION IN INDIA

Supply-Side Factors

Financial Institutions

Financial Institutions are one of the pillars of any economy, developed or developing. These play a major role in forming and reforming the shape of the financial system of any country. Financial institutions can be broadly classified into Depository and Non-depository institutions.

- Depository Institutions

Depository, also known as Banking Institutions, can further be classified into Commercial Banks and Cooperative Banks. According to the recent publications of Reserve Bank of India, there are a total of 137 scheduled commercial banks, consisting of 12 scheduled Public sector banks, 21 scheduled Private sector banks and 43 Regional Rural Banks. Approximately 33.4% of the Public Sector banks (including various branches of the same) are situated in rural areas. Nearly, 27.8% of these banks are there in semi-urban areas, 19.2% are there in urban areas and 19.46% are there in metropolitan areas. Nearly, 20.7%, 31.8%, 21.08% and 26.32% of scheduled Private Sector Banks are situated in rural, semi-urban, urban and metropolitan areas respectively (RBI, n.d.). Cooperative banks can also be further divided into UBCs (Urban Cooperative Banks) and RBCs (Rural Cooperative Banks). There are 1484 UBCs and 96,000 RBCs currently working in the Indian financial system, according to Statista, 2023.

Cooperative banks also strike a balance between the requirement for profitability and the more general demands of their members and the larger society in terms of economic and social growth, because members are both producers, manufacturers and beneficiaries. In India, for instance, the consumer needs of 67 percent of rural households are covered by cooperatives (Nayak, 2012). This helps in financial awareness among the youth in rural segments of the economy and thus reduces the chances of rural depopulation. The statistics indicate that RBI has been building up a robust branch network of commercial banks, regional rural banks, and cooperative banks with a view to increase banking penetration and promote financial inclusion.

- Non-Depository Institutions

According to the latest Economic Survey released by the Ministry of Finance, only 3 people out of 100 have a life insurance policy in India.

This figure stood at 2.82 in 2019 (Aggarwal, 2022). The figures for non-life insurance coverage were worse. Only 1 out of 100 people had a non-life insurance policy in India, according to the official figures (Aggarwal, 2022). In this way, as it is found to be closely tied to patterns of economic and social inequality, the challenge of expanding financial inclusion involves both the design and implementation of public policies and progress in the design of insurance products, in such a way that there is increased penetration of the insurance mechanism in the economy and, therefore, in the standard of well-being. For this reason, the means by which this process of financial inclusion in insurance can be carried out are connected to the ways access is provided to specific groups, especially those at the bottom of the population pyramid. There are numerous innovations and financial inclusion in insurance initiatives through what are called Insurtechs. Insurtech is the use of technology innovations designed to make the current insurance model more efficient and allows products to be priced more competitively (MAPFRE Economics, 2020).

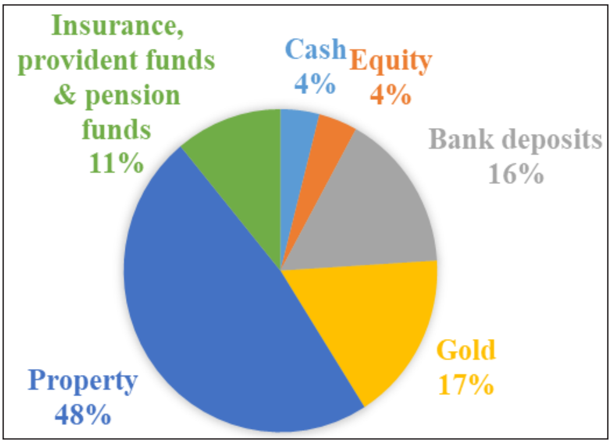
Mutual Funds is a form of indirect investment which enables the investor to indirectly invest in stock market instruments by the means of intermediary i.e., the asset management company. This tool promotes inclusion as those who do not have the direct knowledge and means to invest in stock markets, use mutual funds for the same to get professional investing experience. According to a report by SEBI, in Indian rural households not even 1% of the total households invest in stock markets directly due to lack of awareness among people about this mode of investment (The Indian Express, 2017). In absolute terms only 32 investors amongst the 13,697 rural survey respondents invest in stock markets, out of which investors, 21 investors (66%) invest through mutual funds, 4 (12%) invest in equity instruments and 7 (22%) invest in bonds and debentures but none of them have ever invested in derivatives or futures (The Indian Express, 2017). As per another report of SEBI quoted by the Ministry of State in the Ministry of Finance, the total number of mutual fund investors in India is 1.85 crore. Among these, 70% of the investors come from the income level below ₹5 lakh per annum. This data signifies that investors with limited resources and means consider mutual funds as a lucrative way to invest in stock markets indirectly, promoting inclusiveness (Economic Times, December 2021).

Financial Markets

Capital market in India is dominated mainly by two exchanges, the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE).

However, there are a total of 23 stock exchanges through which investors can access the share market, only 3% of India's population actually invest into stock markets which is far behind the US that has an investment rate of 55% of total population (Live Mint, 2022). In the financial year 2022, a total of over 6,819 companies were listed in the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) across India (Live Mint, 2022). Even though the stock exchanges of the country are continuously developing and expanding, there are still Indians who hesitate to invest in the stock market. This hesitation stands as a major barrier to attain full financial inclusivity in the country. The underlying reason behind this is:

- Lack of proper financial literacy
- Conservative attitude
- Preferences towards physical assets like gold
- Lack of trust
- Lack of capital



Source: Compilation by BS Research Bureau of RBI report, 2020.

Fig. 2: % of Total Indian Household Assets as in December 2020

Fig. 2 shows 11% of the investment is made in Insurance and provident funds, 4% in liquid assets (cash), 4% in equities, 16% in bank deposits, 17% in gold and major 48% in property. Due to the lack of financial literacy and risk averse behaviour of investors a lot of measures have been taken recently to make trading in securities easy and accessible to all. In 1996, the depository system was introduced which is a significant step towards making trading easier and accessible to all. For this opening of Demat accounts, it is a prerequisite which represents securities in dematerialised form. In the financial year 2021, 49.8 million demat accounts were opened comprising 20.9 million in NDSL and 28.9 million in CSDL (BS research bureau & CDSL, 2020).

Recently various trading mobile applications have been launched to make trading in securities accessible to all kinds of investors. In such applications investors can enter the amount, number of securities, company and the type of security the investor wants to invest in. The work which was done by the broker is done by these applications. This makes it possible for the investors to invest in securities without much prior information. Some of the most prominent applications listed in India by Forbes are Zerodha Kite, Upstox, Angel Speed Pro, IIFL, Edelweiss etc (Maheshwari & Jain, 2022).

Financial Inclusion Policies

The Indian government has been adopting a number of unique programmes to promote financial inclusion. The goal of these programmes is to give social security to the less fortunate groups in society. These schemes have been launched over different years. Let us take a list of the financial inclusion schemes in the country:

- Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan Dhan Yojana is a government scheme launched in August 2014 (BankBazaar, n.d.). Individuals are permitted to open zero balance accounts under this scheme. To create an account under the PMJDY system, there will be no fees assessed to the person. The goal of this programme was to give simple access to financial services including remittance, credit, insurance, pension, savings, and deposit accounts to the underprivileged and impoverished in our society.

- Atal Pension Yojana

The Atal Pension Yojana (APY) programme was introduced by the Indian government in the 2015–2016 budget with the intention of assisting those who work in the unorganised sector. This pension programme is designed to give the working poor a reliable source of income after retirement. Some of the main characteristics of this scheme are a pension of up to Rs. 5,000 is paid each month, tax benefits are available, the Indian Government co-contributes to the system, and it is a risk-free scheme (BankBazaar, n.d.).

- Pradhan Mantri Vaya Vandana Yojana

The Indian government introduced the Pradhan Mantri Vaya Vandana Yojana pension programme, which was available from May 4, 2017, through March 31, 2020 (BankBazaar, n.d.). The Pradhan Mantri Vaya Vandana Yojana maximum ceiling was raised to Rs. 15 lakhs by the Indian government in the 2018-2019 Budget Speech. The scheme's primary goal is to give older residents a monthly income at a period of falling interest rates. For the course of the 10-year policy period, the pensioner will be guaranteed an annual return of 8% under the plan (BankBazaar, n.d.).

- Pradhan Mantri Mudra Yojana

Pradhan Mantri Mudra Yojana was introduced in 2015. The main goal of this policy is to support the growth and development of small enterprises. Micro-Units Development and Refinance Agency is the full-form of MUDRA. Businesses can apply for business loans under this programme ranging from Rs. 50,000 to Rs. 10 lakhs to help them kick start their business (BankBazaar, n.d.). The major uses of Mudra loans were working capital loans via MUDRA cards, loans for transport vehicles, equipment financing for small business units, business loans for shopkeepers, dealers, vendors, and other activities in the service sector.

- Pradhan Mantri Suraksha Bima Yojana

The Pradhan Mantri Suraksha Bima Yojana was launched by the government to enable Indian residents to access and be covered by insurance. The scheme's minimum yearly premium is Rs. 12, and participants receive two types of insurance protection: accidental death or total disability and partial disability insurance cover. Customers can choose a family member to receive insurance coverage in the event of their death or total incapacity (BankBazaar, n.d.).

- Sukanya Samriddhi Yojana

The Sukanya Samriddhi Yojana programme was introduced on January 22, 2015, by Prime Minister Narendra Modi at Panipat, Haryana (BankBazaar, n.d.). By eliminating sex discrimination, protecting girls, and increasing the participation of girls in school and other professions, the programme aims to improve the lives of young girls in the nation. Sukanya Samriddhi Yojana (SSY) scheme was launched under the Beti Bachao Beti Padhao campaign with the primary objective of safeguarding a female child's future. The key advantages of the SSY programme are the interest rate reduction from 8.4% to 7.6%, the possibility of account transfers, and tax benefits of up to Rs. 1.5 lakh (BankBazaar, n.d.).

Apart from these major policies discussed above, there are several other policies that are equally important. Those policies are Stand Up India Scheme, Jeevan Suraksha Bandhan Yojana, Credit Enhancement Guarantee Scheme for Scheduled Castes, Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives and Varishtha Pension Bima Yojana.

Other Financial Inclusion Strategies

- The BC/BF Model

RBI has initiated the Business Correspondent/ Business Facilitator (BC/BF) model to provide an extensive opportunity to villagers. "Business Facilitators are primarily involved in creating awareness, processing and opening accounts whereas Business Correspondents in addition mobilise deposits and disburse credits on behalf of the banks" (Chandran, 2010).

- Micro Finance Institutions

There are a large number of micro finance institutions in India with the objective to provide credit and financial products to poor sections of the society (Chandran, 2010). Banks should provide MF products such as savings, lending, migrant worker remittances with MF and micro insurance at reasonable cost.

- Tapping Technology Based Approach

The financial regulatory bodies encourage financial access through ATM banking, Mobile based banking, Net banking, UPI and Aadhar enabled payment services.

Demand-Side Factors

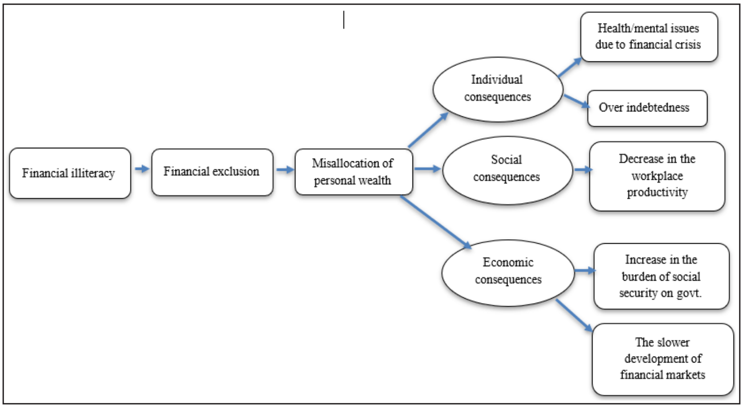
In this section, we will be discussing the need and relevance of financial literacy as well as the need for awareness on consumer grievances redressal systems in India. Henceforth for financial inclusion, it is a prerequisite to impart financial education and awareness among consumers in order to protect and empower them.

Imperative for Financial Literacy in India

The Government of India and the Reserve Bank of India have been making strategic efforts to promote financial inclusion as one of the important nation-wide objectives to accomplish inclusive growth for the economic development of the country. Despite all efforts in terms of providing easy access, availability and affordability of a wide range of financial services and products from mainstream providers, the extent of financial exclusion in India is found to be higher in comparison to some of the major emerging economies (Khan, 2012). "India with a population size of more than 1.4 billion, about 50 percent are still out of the formal financial net" (Khan, 2012). NSSO 59th Round Survey indicates that 51.4 percent farmer households are excluded from formal or informal institutional sources of finance (Chandran, 2010). The Government of India Population

Census 2011 indicates that 42 percent families do not have access to banking financial services (Mundra, 2019). Exclusion is more critical across three regions namely Central, Eastern and North-Eastern regions (RBI, n.d.). Across these regions, credit-linked facilities from formal sectors accounted for only 19.66 percent (Chandran, 2010). If we were to enlarge the picture and study the financial exclusion in the other segments of the economy i.e., insurance and securities market, the situation is far worse (Mundra, 2019).

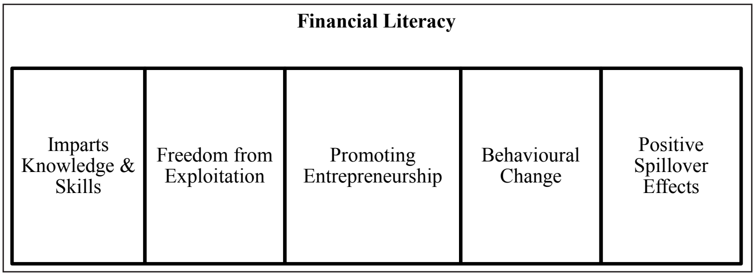
One of the major root causes of financial exclusion is the lack of sufficient financial education along with instability in income, poor saving habits, and geographic remoteness (Choudhury & Bagchi, 2016). It is believed that lack of marketing of financial products and services and self-exclusion due to illiteracy are the major barriers to financial inclusion. Karmakar (2019) argued that there is a high degree of relationship between financial illiteracy and financial exclusion. Fig. 3 explains the consequences of financial illiteracy among all sections of the society.



Source: Sane, 2014.

Fig. 3: Consequences of Financial Illiteracy

"Adequate financial literacy is necessary to include a greater number of people within the reach of financial inclusion" (Karmakar, 2019). OECD has defined financial literacy as "A combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well being" (PK & Reddy, 2020). The knowledge of the financial instruments, markets, institutions, services and their regulatory bodies is extremely essential for an individual to make informed and effective decisions with the objective to manage personal finance more efficiently and in turn, derive long-term benefits of savings. However, as per a recent report by RBI & SEBI approximately 27% of the total population in India (RBI & SEBI, 2021) can be called 'financially literate' and the rest of the population still needs to be educated. Fig. 4 shows how financial literacy leads to financial inclusion and hence, prompts achieving development of an economy.



Source: PK & Reddy, 2020.

Fig. 4: Importance of Financial Literacy

Initiatives Taken by Financial Regulatory Bodies to Promote Financial Literacy in India

A large spectrum of the total population is not only well-versed with the financial products and services being offered to them, in addition, they are not mindful about the initiatives and policies that have been made to strengthen the financial education system and consumer grievances redressal framework in India. Some of them are as follows:

- For the purpose of financially educating the citizens, the Reserve Bank of India has come up with the National Strategy for Financial Education (2020-2025) which is a revision of the earlier strategy of NSFE 2013-2018 (RBI report, 2021). The strategy is extremely wide covering different strata to encourage financial awareness, risk management, knowledge of grievance redressal, habit of saving, usage of safe digital financial services, participation in financial markets and planning for retirement. As per the RBI report 2021 dated 17 March 2021, this has been made possible by the way of 5Cs that is:

Content: Inclusion of financial content in curriculum of schools and organisation of workshops at relevant sites.

Capacity: Development of Code of conduct and providing capacity to financial intermediaries to educate people.

Community: Community led approaches for imparting education.

Communication: Use of technology and media to reach people.

Collaboration: Integration of all the above to streamline the process of financial education.

- RBI has initiated a project titled "Project Financial Literacy". Also, RBI has designed the booklet Financial Awareness Messages (FAME) which includes information related to relevance of budgeting, documents required for opening a bank account, usage of e-banking, significance of saving and responsible borrowing and the process of lodging complaints at the bank and the Banking Ombudsman (RBI, 2020). The audio-visuals pictorial booklet was also designed named 'Raju' and 'Money Kumar' to help the uneducated people of the society (Verma et al., 2017).
- National Centre for Financial Education (NCFE) is established with the collective effort of "Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA) along with additional support of Financial Stability and Development Council (FSDC), MOF, GOI" (PK & Reddy, 2020). The objective is to promote financial knowledge among all sections of the society across India. NCFE has been conducting financial education training programme (FETP), financial awareness and consumer training (FACT), Money Smart School Programme (MSSP), and financial education programme for adults (FEPA) through workshops, webinars, seminars, discussion forums, conclaves, and hands on training programmes. The National Financial Literacy Assessment Test (NFLAT) has been gaining popularity across the globe as it encourages students of class VI to XII to give financial literacy tests free of cost every year (PK & Reddy, 2020).
- "SEBI has established the National Institute of Securities Market (NISM) which introduced the School for Investor Education and Financial Literacy" (PK & Reddy, 2020) to enhance financial skills in individuals from all walks of life.

Awareness on Consumer Grievances Redressal Framework

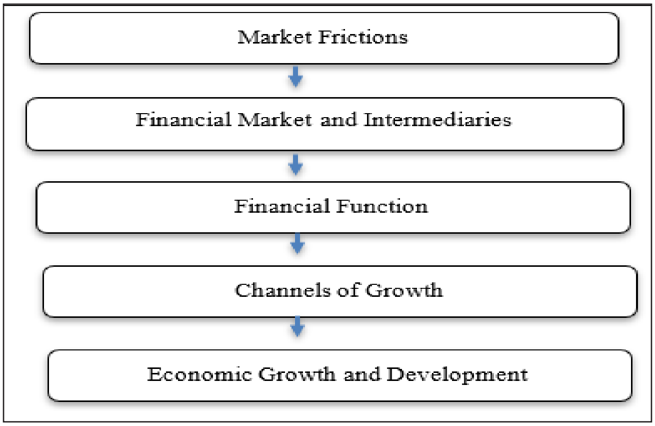
Financial inclusion and financial literacy, in any economy, go hand in hand. One aspect prospers automatically if steps are taken to improve the other. But despite this connection between the two, the execution and impact boils down to the protection of beneficiaries. Safeguarding the interests of the consumers has always been one of the priorities of the Reserve Bank of India. There was an urgent need to bring in force regulations relating to consumer education and awareness to protect and empower them. Consumer education and protection is an integral component of RBI's full-service central banking functions. The "Consumer Education and Protection Department (CEPD), set up in 2006 as Customer Service Department (CSD), frames policy guidelines for consumer protection and oversees the functioning of the 22 Offices of RBI Ombudsman (ORBIOs) and 30 Consumer Education and Protection Cells (CEPCs)" (RBI, 2021). Apart from the Reserve Bank of India, several other regulators, such as SEBI - Securities Exchange Board of India, have established certain rules and regulations regarding the investor protection in the securities market. SEBI endeavors to ensure that the investor learns investing, that is, he obtains and uses information required for investing, evaluates various investment options to suit his specific goals, ascertains his rights and obligations in a particular investment, deals through registered intermediaries, takes necessary precautions, seeks help in case of any grievance, etc. SEBI has adopted a disclosure based regulatory regime. SEBI's Complaint Redressal System (SCORES) is web-based, centralized grievance redress system where investors can view the action taken and the current status of the grievance online (PK & Reddy 2020). SEBI has a comprehensive mechanism to facilitate redressal of investor grievances against intermediaries and listed companies. It takes appropriate enforcement actions as provided under the law (including launch of adjudication, prosecution proceedings, directions) where progress in redressal of investor grievances is not satisfactory.

FINANCIAL INCLUSION AS A TOOL FOR ECONOMIC DEVELOPMENT

India is one of the fastest growing economies across the globe. The thrust of the New Economic Policy has been towards creating a more competitive environment in order to expand the economic wings of the country. Since 1991, the Indian economy has been progressively enjoying the path of stable economic growth, however, this higher economic growth is restricted to some prosperous section of the society and hence, social and financial inequalities have increased alongside. To address the issue, the 11th five-year plan stated Inclusive Growth or Distributive justice as its objective which entails all the sections of the society to be included and equally participating in the growth process (Chandran, 2010).

In India, inclusive growth can be achieved through financial inclusion. As per United Nations, Sustainable Development Goal 8 has stated how financial independence can lead to economic growth of a country. It is about inclusive and sustainable economic growth, employment and decent work for all. The Target 8.A of the SDG 8 primarily focuses on 'Universal access to Banking, insurance and financial services' which entails 'Financial Inclusion' (United Nations, 2015). This goal aims to encourage domestic financial institutions to expand access to banking, insurance and financial services for all. Therefore, the financial institutions around the world, including India, are taking many significant steps to ensure that the largest number of people can participate fully and effectively in economic life. In the last two decades, digitalization of the financial infrastructure and services has promoted more inclusivity and offered greater earning potential, lower transaction costs, knowledge of financial trends, geographical advantage, reduced risk of theft etc. According to BTCA (Better than Cash Alliance), through digitizing salary and trade payments, businesses can offer their employees and business partners a direct channel to financial inclusion – increasing economic opportunities and resilience. When MSMEs digitize payments, they start generating data that can be used for credit scoring, which can then be used to make decisions on access to financing. It also reduces the cost of handling cash and increases access to consumer financing. Digital financial services fuel low-cost business models with the potential to create 95 million new jobs and add 6% to global GDP by 2025 (World Bank, 2020). India along with 80 other countries have already launched digital financial services including those involving the use of mobile phones (World Bank, 2020).

Financial inclusion is essential to address numerous economic issues like GDP growth, unemployment, poverty, income equality and distribution (PK, 2015). The focus of financial inclusion policies by the government of India, financial literacy and consumer grievance redressal framework is to ultimately eradicate the persistent scarcity of financial services and products to a larger section of the society which leads to a decline in investment avenues and hence, promoting inclusion of underbanked and underbanked sections of society. There is a relationship that exists between economic growth and finance (PK, 2015).



Source: PK, 2015.

Fig. 5: Linkage between Finance and Economic Growth

This Fig. shows that market frictions i.e., information and transaction costs are generally involved when dealing with financial markets and intermediaries but at the same time it provides variety of financial products and services by various institutions which opens up different channels of growth and hence, leads to the urgent need of capital accumulation and technological advancement which ultimately result into economic growth and development in terms of eradication of poverty, generation of job opportunities, increase in consumption pattern and improve the standard of living (PK, 2015).

RECOMMENDATIONS

- Financial inclusion is one of the major pillars to achieve financial stability in all developed and developing countries. According to the RBI (National Strategy for Financial Inclusion), financial education, financial inclusion and financial stability are three elements of an integral strategy. While financial inclusion works from the 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.
- Adopting and implementing the use of innovative technology with technology driven institutions will help in digitalisation of the banking system which will further accelerate the growth

of transactions per day. With the increase in technology, there should be authorised regulations so as to ensure a proper redressal framework for the consumers. Apart from a solid network, a variety of financial products accessible at low cost, is also essential for financial broadening.

- Some empirical evidence shows that women face more barriers when it comes to financial inclusivity because of poor credit history or lack of collateral. During the time of COVID-19 many women lost jobs as the majority of them work in the informal sector. This made matters worse by widening the gender gap. Commercial banks often focus more on men while imparting their financial services, neglecting women who make up a large segment of the informal economy. The Government along with the financial institutions should make sure that women are getting equal financial opportunities as men. Targeting women with financial inclusion will benefit the country's economy and will help to achieve the true meaning of sustainable development.
- One of the major areas to work upon is to create large-scale awareness about adequate resources available to provide education to the youth of the nation.
- Financial deepening and broadening are two major pillars of financial inclusion. Both of these aspects come by financial penetration, which means providing accessible networks to the underdeveloped areas as well. Expanding the base of agent-based banking facilities and other delivery channels would help create a trustworthy ground for the general public.
- There has been a rapid progress of financial inclusion efforts in India as stakeholders have come to realize the importance of various financial products like mutual funds and Insurance. Mutual funds are a growing sector with a growth rate of almost 30% per year. According to experts, India's mutual fund industry has the potential to have total assets under management (AUM) worth Rs. 90 trillion by the end of this decade. Therefore, more emphasis should be given to the financial markets and the financial products offered by them.

CONCLUSION

RBI has been emphasising that providing effective banking facilities to the poor section holds a major economic opportunity for developing countries like India. The current policy objective of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. In this paper we discussed two aspects of the Indian Financial System i.e., demand side factors and supply side factors. Under Supply, we understood the reasons behind less popularity of stock exchanges among the public and how the regulatory bodies and the government play a role in minimising the hesitation. Under Demand, we discussed that despite the implementation of several financial education strategies, financial illiteracy is still dominant in India, which is a major drawback for economic growth. If citizens are not properly educated, they will not turn out to be rational investors. For this, the present strategies should be implemented at a massive scale without any laxity to impart financial education to everyone. It is hoped that proper implementation of such a nationwide strategy covering all the financial areas with a proper targeting will bear the fruit.

LIMITATIONS OF THE STUDY

- The paper limits to secondary data and hence the inputs provided by other means of data collection would not be covered.
- Constraints pertaining to time also exist.

REFERENCES

Aggarwal, R. (2022, January). Only 3 out of 100 people in India have life insurance policy: Economic survey. Retrieved from https://www.india.com/business/only-3-out-of-100-people-in-india-have-life-insurance-policy-economic-survey-5215331/

BankBazaar. (n.d.). Retrieved from https://www.bankbazaar.com/personal-loan/financial-inclusion.html

Chandran, S. (2010). Financial inclusion strategies for inclusive growth in India. *SSRN Electronic Journal*. doi:http://dx.doi.org/10.2139/ssrn.1930980

Choudhury, S., & Bagchi, D. (2016). Financial exclusion - A paradox in developing countries. *IOSR Journal of Economics and Finance*, *7*(3), 40-45. doi:10.9790/5933-0703014045

Economic Times. (2021, December). 70% mutual fund investors in India earn less than Rs 5 lakh annually. Retrieved from https://m.economictimes.com/mf/mf-news/70-mutual-fund-investors-in-india-earn-less-than-rs-5-lakh-annually/articleshow/88022620.cms

Karmakar, S. (2019). Financial Inclusion: Reasons for Financial Exclusion and Re-engineering of Strategies to Address such Issues in North East India. *Pratidhwani the Echo A Peer-Reviewed International Journal of Humanities & Social Science, 7*(4), 307-322.

Khan, H. (2012). Issues and challenges in financial inclusion: Policies, partnerships, process and products. *RBI Monthly Bulletin.*

Live Mint. (2022, February). Percent of population investing in stock markets: India Vs Rest of the world. Retrieved from https://mintgenie.livemint.com/news/infographics/percent-of-population-investing-in-stock-markets-india-vs-rest-of-the-world-151643871616428

Maheshwari, R., & Jain, A. (2022, November). Best trading apps in India. *Forbes Advisor.* Retrieved from https://www.forbes.com/advisor/in/investing/best-trading-apps/

MAPFRE Economics. (2020). Financial inclusion in insurance, Madrid, MAPFRE Economics. Retrieved from https://www.mapfre.com/media/economic-research/2020/mapfre-economics-inclusion-financiera-11-06-2020-ENU.pdf

Mundra, S. S. (2019). Financial exclusion in India: Dimension of the problem. *ICT Post.* Retrieved from https://ictpost.com/financial-exclusion-in-india-dimension-of-the-problem-2/

Nayak, R. (2012). Financial inclusion through cooperative banks: A feasible option for inclusive growth. Retrieved from https://www.iimidr.ac.in/wp-content/uploads/Financial-Inclusion-through-Cooperative.pdf

Hridhya, P. K., & Reddy, R. J. (2020). An insight to financial literacy in India - A review of literature. *Journal of Emerging Technologies and Innovative Research (JETIR), 7*(9), 1442-1450.

Manoj, P. K. (2015). Financial inclusion in India: A study of the linkage between economic growth and finance. *International Journal of Applied Financial Management Perspectives*, *3*(4), 1880-1885.

Reserve Bank of India. (2020). National strategy for financial inclusion 2019-2024. Retrieved from https://rbidocs.rbi.org.in/rdocs/content/pdfs/NSFIREPORT100119.pdf

Reserve Bank of India. (2020). Reserve bank of India's financial education initiative. Retrieved from Reserve bank of India. Retrieved from www.rbi.org.in

Reserve Bank of India. (2021). National strategy for financial inclusion 2020-2025. Retrieved from https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1156#CH4

Reserve Bank of India. (n.d.). Financial inclusion in India – An assessment. Retrieved from https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/MFI101213FS.pdf

Reserve Bank of India. (n.d.). List of scheduled commercial banks. Retrieved from https://m.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3657

Sane, A. (2014). Financial literacy: Challenges for Indian economy. *Journal of Commerce and Management Thought, 5*(3), 475-487. doi:http://dx.doi.org/10.5958/0976-478X.2014.00335.8

Statista. (2023). Retrieved from https://www.statista.com/statistics/1021852/india-number-of-scheduled-banks-by-type

The Indian Express. (2017, April). Less than 1% of rural households invest in stocks: Sebi survey. Retrieved from https://indianexpress.com/article/business/market/less-than-1-of-rural-households-invest-in-stocks-sebi-survey-4601264/

United Nations. (2015). Sustainable development goals. Retrieved from https://sdgs.un.org/goals/goal8

Verma, T. L., Nema, D., & Padagre, R. (2017). An overview of current financial literacy efforts in India. *Open Access International Journal of Science and Engineering*, 39-42.

World Bank. (2020). Igniting SDG progress through digital financial inclusion. Retrieved from https://www.betterthancash.org/explore-resources/igniting-sdg-progress-through-digital-financial-inclusion