

## Status of Financial Inclusion in India

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### Abstract:

One of the important parameter of economic development is access to finance by majority of population, hence, achievement of 100 per cent financial inclusion is an area of priority. The concept of financial inclusion is not new. India has been into this journey since the advent of cooperative movement in 1950s, followed by nationalization of banks in 1960s, Lead Bank Scheme, Priority Sector Lending, Self-Help Groups, Business Correspondent Models, etc. All these moves were with an intention to connect underserved and unbanked population of the country with the formal banking system. The biggest step in the financial inclusion journey of India was launch of Pradhan Mantri Jan DhanYojana (PMJDY) under which bank accounts of financially excluded population were opened with the help of digital channels and it has brought a major shift in the this field.

This research paper is an attempt to have a glimpse of status of financial inclusion in India and to study further road map of GoI and the RBI to achieve 100 per cent financial inclusion in the country.

**Key words:** financial inclusion, financial literacy, FINDEX, microfinance

### Introduction:

One of the key ingredient for sustainable and inclusive growth of the country is 'Financial Inclusion'. Financial inclusion can be defined as universal access to a variety of financial services at an affordable cost. Financial services include banking services, insurance, equity and credit products of the banks.

Financial access is extremely important as it helps the families and businessmen to plan their long-term goals as well as prepare for contingencies. Once a person gains access to bank account, he is more likely to use other banking services too such as insurance and credit which helps them to start new business, avail the benefit of education and health insurance, risk management which in turn improves the overall quality of their lives.

Post pandemic the focus has been shifted from financial inclusion to digital financial inclusion. Digital financial inclusion is nothing but reaching financially excluded population through cost-saving digital means with a variety of financial services which are affordable and tailored as per their needs.

"Great Strides have been made towards financial inclusion and 1.2 billion adults worldwide have gotten access to an account between 2011 and 2017. As of 2017, 69 per cent of the world's adults had an account. Digital financial services have been launched in more than 80 countries."<sup>1</sup> Majority of financially excluded people have preferred mobile phones to gain access to formal financial services and have reduces dependence on cash based transactions. "However, close to one-third of adults – 1.7 billion – were still unbanked in 2017, according to the latest Findex data 2021.About half of unbanked people included women poor households in rural areas or out of the workforce."<sup>2</sup>

Coming down to India, the RBI mentioned that there has been an improvement of 24 per cent in financial inclusion was reported by FI-Index during the period of March 2017 and March 2021, which is a great achievement.

## Objectives:

Objectives of the study are:

1. To understand the concept of financial inclusion
2. To study financial inclusion index
3. To know the status of financial inclusion in India during the selected period
4. To understand what steps can be taken to further improve financial inclusion in the country

## Scope of the Study:

1. The paper covers the time period of March 2017 to March 2021
2. The study pertains to India only

## Research Methodology:

The data for the paper is collected from secondary sources via-various publications, newspaper, annual reports, books & magazines as well as various search engines.

## Financial Inclusion Index:

With an objective of capturing the extent of financial inclusion in the nation, the RBI, in consultation with the stakeholders, have constructed a composite Financial Inclusion Index, which is also called as FI-index. This index covers the details of investments, insurance, banking services, postal services and pension sector.

The FI-Index comprises three broad parameters (weights indicated in brackets):

1. Access (35%),
2. Usage (45%), and
3. Quality (20%)

The index value ranges between 0 and 100, in which 0 means total financial exclusion whereas 100 means total financial inclusion.

As we know, index helps us to know whether the government has been successful in delivering financial services and products amongst the people equally and whether the population is making use of those products, i.e. to check its usage by people. Just making to product

1. <https://www.worldbank.org/en/topic/financialinclusion/overview>

2. Ibid

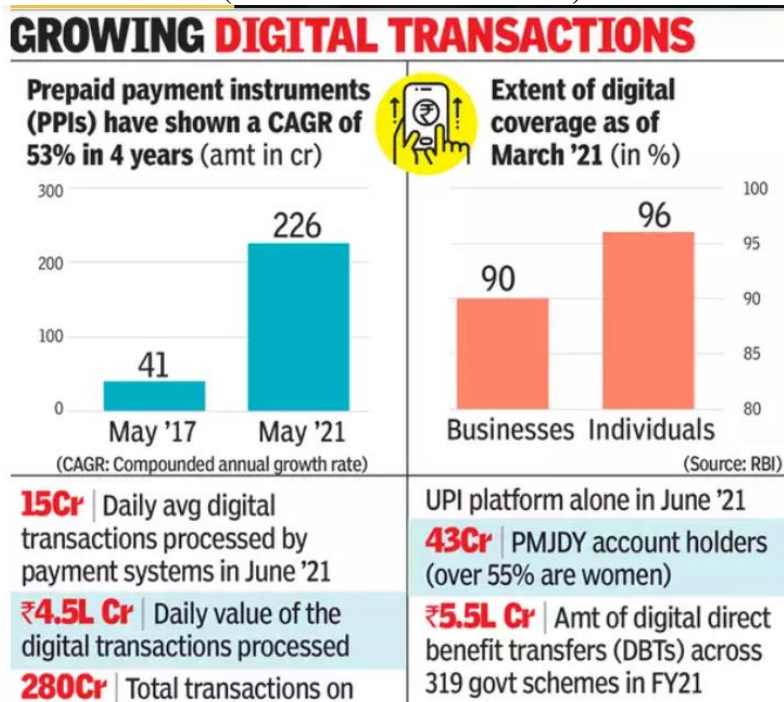
accessible and available does not mean that it is being used by the people in the way expected. 'Usage' of the product is more important as just opening the bank account is not going to solve the purpose. Hence, the usage index has been given nearly half the weightage while calculating financial inclusion index.

## Growth in Financial Inclusion:

“Pradhanmantri Jan DhanYojana has been highly instrumental in bringing about financial inclusion in the country. 42.6 crore accounts have been opened up under this scheme and 55 per cent of the accountholders are women.”<sup>3</sup> “These accounts are active accounts due to Direct Benefit Transfers (DBT) under which Rs. 5.5 lakh crore has been transferred digitally across 319 government schemes during 2020-21.”<sup>4</sup>

Infact Covid proved to be a game changer in case of financial inclusion. Majority of the population moved towards digital platform during pandemic and continue to use the same even today. The following chart shows the growth in digital transaction during March 2017 to March 2021.

**Chart No. 1**  
**Growth in Digital Transactions in India**  
**(March 2017 to March 2021)**



(Source: <https://timesofindia.indiatimes.com/business/india-business/financial-inclusion-grew-24-across-fy17-21-rbi/articleshow/85415519.cms>)

- Inclusive Finance India Report (2021), Access Development Services, New Delhi, ISSN 978-81-955245-1-8
- <https://timesofindia.indiatimes.com/business/india-business/financial-inclusion-grew-24-across-fy17-21-rbi/articleshow/85415519.cms>

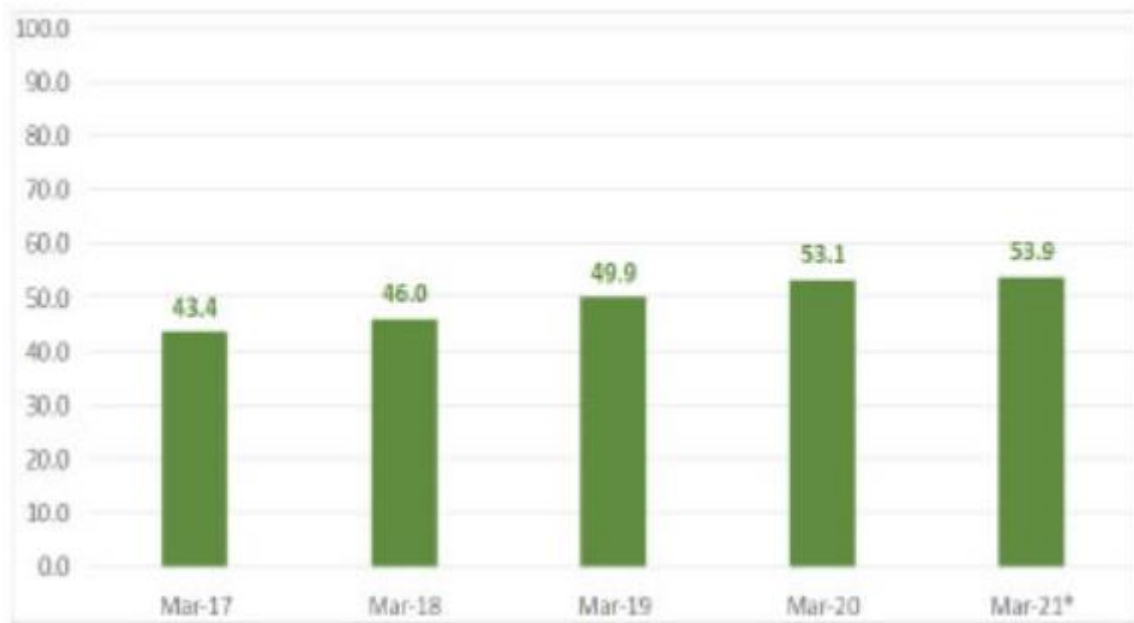
It can be seen from the above chart that the compounded annual growth rate has been 53 per cent during the study period. PMJDY has proved to be the biggest driver in connecting around 42.6 crore people to the formal banking sector, 55 per cent of which is women.

**Table No. 1**  
**FI-Index and Sub-indices**  
**(March 2017 to March 2021)**

Year	Access	Usage	Quality	FI-Index
Mar 17	61.7	30.8	48.5	43.4
Mar 18	63.9	33.7	51.4	46
Mar 19	67.5	38.7	52.6	49.9
Mar 20	71.6	42	53.8	53.1
Mar 21	73.3	43	50.7	53.9

Source: [https://rbi.org.in/scripts/BS\\_ViewBulletin.aspx?Id=20502](https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=20502)

**Chart No. 2**  
**FI-Index and Sub-Indices**  
**(March 2017 to March 2021)**  
**(on the scale of 0 to 100)**



Source: [https://rbi.org.in/scripts/BS\\_ViewBulletin.aspx?Id=20502](https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=20502)

Good progress of financial inclusion can be seen in past five years. The FI index has grown from 43.3 to 53.9 resulting in Compounded Annual Growth Rate of 5.5 per cent which is a good sign.

Out of all sub-indices, access has the highest value 73.3 followed by usage with value 43 and quality with value 50.7. This indicates that there is a need for deepening the financial inclusion by focusing on promotion of improving quality and usage.

**Way Forward:**

The following chart shows master plan of how 100 per cent sustainable financial inclusion can be achieved:

Chart No.3  
Gateway to Financial Inclusion



Source: <https://www.jatinverma.org/rbi-unveils-financial-inclusion-index>

Financial inclusion in terms of number is pretty impressive as we can see the huge number of accounts being opened up in past five years, however, just providing access is not going to fulfill the purpose. It is necessary to solve the issue of inoperative accounts. For this purpose, deep insight of problems including irregular income, inappropriate financial products, lack of awareness is required. These issues must be resolved on priority basis only then financial inclusion in true sense can be achieved. In fact sustainable financial inclusion is possible if accountholder is also provided with other complementary services such as insurance, investment, credit, pension, etc.

One of the important part of financial inclusion is financial literacy. Lack of awareness about various schemes leads to non-usage of benefits that such schemes provide. For this purpose, steps such as advertisement in local languages must be published on TV and radio as well as in print media so that public can get to know details of schemes available.

Finally, financial inclusion efforts will become 100 per cent successful if help is sought from local government. Municipalities, panchayati raj institutions and city councils can help in identifying unbanked population and encouraging opening of bank accounts.

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