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Exploring Financial Inclusion In India: Progress, Challenges And The Way Forward

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Abstract: ***The concept "financial inclusion" is new and has gained international interest. In order to eradicate poverty in the nation, financial inclusion is essential. The goal of financial inclusion is to promote employment, development, and sustainable growth among those living in rural areas. The goal of financial inclusion is to give low-income people affordable access to credit and financial services. Additionally, it gives everyone the same chance to access financial services including loans, insurance, remittance facilities, payments, and credit facilities to enhance living and income. Financial inclusion will make it possible for people in remote areas to access basic financial services and credit, even though only a specific group of people can access these features through Internet banking. These services include insurance, credit, savings, and more. This paper aims to investigate financial inclusion in specific areas of need, financial inclusion development strategies, financial inclusion's present state, financial inclusion's future, and financial inclusion challenges in India. The involvement of people and institutions in the economy is another topic covered in this article. To what extent has this been accomplished?***

Keywords: Inclusive finance, sustainable growth, Financial facilities, poor people, banking and Insurance

I. INTRODUCTION

Providing low-income populations with basic financial services at affordable rates is known as financial inclusion. Connecting the appropriate banking system to access financial services so that one may make financial decisions is the aim of financial inclusion. The process of gaining access to affordable financial services for low-income and marginalized populations when needed is known as financial inclusion (C. Rangarajan Committee 2008). India's economic growth rate is rising significantly every day, while poverty is declining. Innovations in the banking sector, such as financial inclusion, encourage clients to use the services, which builds momentum. The banking industry and its offerings have spread throughout the nation. The banking industry in India reached new heights as a result of increased commercialization and deregulation. Therefore, economic growth, an increase in income, lifestyle, employment, etc., are the results of financial inclusion. In order to accomplish the Millennium Development Goals (MDGs), the nation has implemented the most important financial inclusion methods. The National Commission for Transforming India (NITI) and the worldwide Sustainable Development Goals (SDGs) for 2015–2030 are implementing certain changes to accomplish this, combining both practical and principled approaches. It involves offering banking services that are equal and available to everyone.

Two essential cornerstones of a healthy economy are financial inclusion and financial literacy. Financial literacy aims to create demand for financial services (the demand side) by educating people about them, whereas financial inclusion focuses on extending financial services (the supply side) to all social classes. Financial inclusion guarantees marginalized communities have access to a wide range of financial services, not simply bank accounts and credit.

II. REVIEW OF RELATED LITERATURE

In India, scholars and researchers have studied financial inclusion extensively. The following are some of the references used in this study. The Pradhan Mantri Jan Dhan Yojana's (PMJDY) impact on financial inclusion was examined by Gupta & Jain (2023). Access to banking services has been greatly expanded by the effort, particularly in underserved and rural areas. However, they also pointed out that a large number of beneficiaries were not actively using the accounts for purchases or saves. They proposed that offering appropriate financial solutions and enhancing financial literacy could aid in closing the gap.

Digital payments and mobile banking are crucial financial services that improve financial inclusion, especially in rural and isolated areas. Kumar and Sharma (2022). The study found that greater economic involvement and digital finance were positively correlated. A few security and trust-related concerns are covered. The Digital India initiative's implementation and its effects on financial inclusion were examined by Srinivasan & Rao (2021). The endeavor that resulted in the growth of digital infrastructure, internet access, and mobile phone usage was described in this evaluation. Better access to government subsidies and banking services was made possible by this expansion. However, they also pointed out that financial inclusion is greatly impacted by digital problems, low literacy rates, and limited internet.

In order to encourage financial inclusion in order to determine the main factors influencing the use of mobile money in their chosen region, Amoah, Korle, and Asiama (2020) investigated the role of mobile money. These factors included income levels, education, and the tech-savvy nature of younger age groups, as well as the services that were available, such as phone credit recharge. Inoue (2019) investigated the relationship between India's financial development and poverty alleviation. Comparing the consequences of each sector, the researcher concentrated on the role that commercial banks—both public and private—have in promoting financial inclusion and reducing poverty.

In India, Ashish Baghla (2018) conducts research on financial inclusion and its prospects for the future. He conducted more study to examine the significance of financial inclusion and suggested crucial measures that the government should do to overcome the obstacles. Singh and Nirvikar (2017) investigated a number of ideas, problems, and regulations pertaining to financial inclusion in India. Additionally, the study gave a summary of institutional and empirical research on the subject, especially as it relates to developing nations.

John-Hee Kim (2015) examines increasing financial accessibility, reducing income gaps, and fostering economic growth through tackling inequality. The expansion of financial inclusion and its importance were the main topics of Purvi Shah and Medha Dubhashi (2015). Their study's findings, which emphasize the growing gender gap and the effects of wealth inequality in emerging countries, reveal that 41% of adults have access to official financial accounts, with only 37% of women and 46% of men included.

III. OBJECTIVES OF THE STUDY

- ✓ To Understand the importance and Need for Financial Inclusion in India.
- ✓ To overview the impacts on Financial Inclusion in India.
- ✓ To light the tasks of Financial Inclusion in India.

IV. RESEARCH METHODOLOGY

The secondary data included in this paper was collected from both online and offline sources, including websites, reputable journals, periodicals, textbooks, and newspapers.

V. NEED FOR FINANCIAL INCLUSION IN INDIA:

In India, the main focus of financial inclusion is on underprivileged groups and rural areas.

Developing the Savings Habit: Financial inclusion will provide a foundation for the growth of the saving habit. The lower income group will not be interested in saving their money, even though doing so will give them an advantage in the event of a future financial catastrophe.

Availability of Credit: Financial Inclusion will function as a recognized financial organization. lower-income group for their credit needs, members of the unbanked population have relied on a variety of unofficial financial channels, such as friends, moneylenders, etc. The availability of loan facilities via official, transparent channels will promote the use of credit in rural areas. Additionally, it will encourage an entrepreneurial mindset. Minimizes welfare program and subsidy leaks: Government-funded welfare programs and subsidies occasionally fail to reach its intended recipients. Therefore, bank accounts can be used for direct cash transfers.

Lessens financial inequality: By circulating more money through loans to individuals for investments, financial inclusion helps lessen economic gaps.

Social Security programs: Benefits and subsidies can be given to recipients directly, bypassing middlemen.

VI. STRATEGIES TO DEVELOP FINANCIAL INCLUSION IN INDIA:

The government of India is implementing a number of programs to encourage financial inclusion, including:

- ✓ Direct Benefit Transfer (DBT): This program began with 26 welfare programs spread over 43 districts. This plan guarantees that money will be sent to beneficiaries right away.
- ✓ Unstructured Supplementary Service Data, or USSD, Financial services such as money transfers, bill payment, inquiries, merchant transactions, etc. that are available on mobile devices without the need for apps are known as mobile banking.
- ✓ Small branches that are established in all rural regions are known as Ultra-Small Branches (USBs) financial inclusion. The fourth campaign was called Swabhimaan, and its goal was to use business models, technologies, and BCAs to deliver services.
- ✓ Business Correspondent approach: By using middlemen to provide financial services, this approach seeks to expand financial inclusion.
- ✓ Bank-MFI Linkage Model: These connection models serve as a conduit between rural areas without access to banking services and microfinance institutions.
- ✓ MF-NBFC Model: Microfinance services are provided to the impoverished in rural, semi-urban, and urban areas by non-banking financial companies.
- ✓ Bank-Post Office Model: The post office offers services including savings, deposits, money transfers, parcel delivery, etc. in collaboration with commercial banks.
- ✓ No-frills accounts: A broad range of people can access low-cost, basic bank accounts with a minimum balance. KYC norms: Since 2005, KYC requirements have been reduced.
- ✓ The utilization of information and communication technology (ICT) is a crucial component in providing financial services to rural populations. Through biometrics, even clients with low levels of education are utilizing technology, which offers excellent security and boosts customer confidence.
- ✓ Simplified branch authorization: Because bank branches varied across the nation, this program was created to allow branches to open freely in various locations with generic permits, however they must report as such.

VII. PRADHAN MANTRI JAN DHAN YOJANA

On August 15, 2014, the Indian government introduced the Pradhan Mantri Jan Dhan Yojana (PMJDY), a new program that aims to promote financial inclusion by providing basic banking services and financial services to economically disadvantaged groups in society. Under the motto "SABKA SAATH SABKA VIKAS," which stresses equitable and all-encompassing development, education can lead to inclusive progress.

Pradhan Mantri Jan. Dhan The goal of the Yojana PMJDY national purpose is to give every family access to essential banking services, such as opening a bank account and educating them about credit, insurance, pensions, welfare programs, and subsidies. Additionally, Rupay debit cards and a one-lakh rupee insurance policy were issued.

THE BENEFITS OF THIS YOJANA ARE AS FOLLOWS

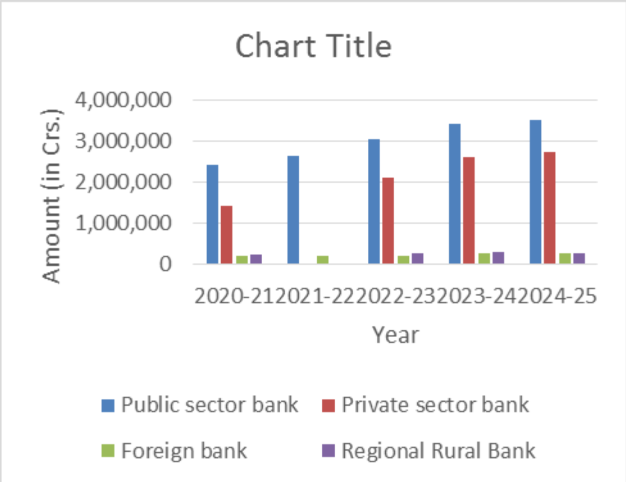
This account offers numerous benefits to its holders. There is no requirement for a minimum balance, making it accessible to everyone. Account holders can earn interest on their deposits, helping their savings grow over time. Simple financial transfers can be carried out with ease, ensuring convenience in daily transactions. Each account is also covered by accident insurance of one lakh rupees, providing financial security in emergencies. For accounts that are operating satisfactorily, an overdraft facility will be available for up to six months. Beneficiaries of government schemes will receive Direct Benefit Transfers (DBT) directly into their accounts. This ensures timely and transparent disbursement of subsidies and aid. Additionally, the account allows access to insurance and pension schemes, further supporting financial inclusion. Overall, it provides a secure, efficient, and beneficial banking experience.

IMPACT ON INITIATIVES

The current financial inclusion scenario in India has witnessed significant progress, particularly through the expansion of the official banking system. Approximately 310 million people have been brought under the formal banking framework, highlighting a major achievement in broadening access to financial services. Over 25,000 new bank branches have been established across the country, with a strong focus on reaching rural and underserved populations. States such as Andhra Pradesh, Karnataka, Tamil Nadu, and Telangana have experienced notable benefits due to the opening of new banking offices in previously unbanked areas. These efforts have helped improve accessibility and financial literacy among rural residents. Additionally, more than 45,000 new ATMs have been installed in regions with limited banking infrastructure, providing essential banking services close to home. Despite these advancements, financial inclusion remains uneven. In northeastern India, only 3% of the states have been covered, indicating a significant gap that still needs to be addressed. This regional disparity underscores the need for targeted strategies to enhance access in remote and marginalized areas. The overall expansion of banking infrastructure reflects the government's commitment to inclusive growth. However, continuous efforts are required to bridge remaining gaps. With ongoing initiatives, India moves closer to achieving full financial inclusion.

CREDIT DELIVERY

Priority Sector Lending (PSL) by Scheduled Commercial Banks (SCBs) in India plays a crucial role in promoting inclusive growth and financial access. PSL mandates banks to allocate a specific portion of their credit to sectors like agriculture, micro and small enterprises, education, housing, and weaker sections. In India, SCBs are required to direct 40% of their Adjusted Net Bank Credit (ANBC) toward these priority sectors. Public sector banks contribute the largest share, followed by private sector banks, while foreign banks and regional rural banks also play supporting roles. Over the years, PSL has steadily increased, reflecting the banking system's focus on equitable credit distribution. This mechanism ensures that under-served sectors receive necessary financial support. PSL remains a key instrument in aligning credit flow with national development goals. The following chart describes Priority sector lending (PSL) by Scheduled commercial banks (SCBs) accounting for 45.1 percent of their adjusted net bank credit (ANBC).



The chart presents the trend of Priority Sector Lending (PSL) by various categories of Scheduled Commercial Banks (SCBs) from the financial year 2020–21 to 2024–25. PSL refers to lending aimed at supporting sectors that are vital for inclusive growth, such as agriculture, small enterprises, and weaker sections. The data indicates that PSL accounted for 45.1% of the banks' Adjusted Net Bank Credit (ANBC) during this period. Among the different bank types, Public Sector Banks consistently lead in PSL volumes, increasing their contributions steadily from around □24 lakh crore in 2020–21 to approximately □35 lakh crore in 2024–25. Private Sector Banks follow closely, with their lending growing significantly from □14 lakh crore to □27 lakh crore, indicating their expanding role in priority sector financing. Foreign Banks maintain a relatively low but stable contribution of around □1.5–2 lakh crore each year. Regional Rural Banks (RRBs) also show gradual growth in PSL, nearly doubling their contribution over five years. The overall trend reveals a continuous and collective effort by all banks to meet PSL targets. Public sector dominance can be attributed to their broad rural presence and policy focus. Private sector banks are catching up rapidly, driven by regulatory obligations and market opportunities. The small yet important role of foreign banks and RRBs highlights their niche impact. This consistent growth across all segments reflects the banking sector's commitment to inclusive credit expansion. The data underlines the strategic role of PSL in financial inclusion. The increase in lending over the years shows the system's alignment with national development priorities.

VIII. KISAN CREDIT CARD

The Kisan Credit Card (KCC) scheme, introduced by the Government of India in 1998, was designed to provide timely and adequate credit support to farmers for their agricultural needs, including crop production, maintenance of farm assets, and related activities. Implemented by the Reserve Bank of India (RBI) and NABARD, the scheme aims to reduce farmers' dependence on informal sources of credit such as moneylenders, by offering affordable institutional loans with simplified procedures.

In recent years, the KCC scheme has expanded its scope beyond crop loans to include term loans for agricultural and allied activities like animal husbandry and fisheries. This broadening of coverage reflects the evolving nature of rural livelihoods in India, where many farmers are engaged in diversified farming and related sectors to stabilize income and manage risks. As of the present scenario, the KCC scheme continues to play a critical role in improving access to credit for small and marginal farmers. Government initiatives such as interest subvention, digital KCC issuance, and integration with Jan Dhan accounts have further enhanced the reach and efficiency of the program. Moreover, special drives have been undertaken to include farmers involved in animal husbandry and fisheries who were previously underserved. With increasing coverage and outstanding loan disbursements, the KCC scheme has become a cornerstone of rural credit delivery in India, significantly contributing to financial inclusion and the resilience of the agricultural sector.

Kisan Credit Card (KCC) Scheme

(Number in lakh, Amount in □ crore)

Financial Year	Number of Operative KCCs #	Outstanding Crop Loan	Outstanding Term Loan	Outstanding Loan for Animal Husbandry and Fisheries	Total
2022-2023	282.96	4,61,391	37,551	19,694	5,18,636
2023-2024	298.14	4,93,362	46,332	35,279	5,74,973

Source: Financial Report 2024-25

The table presents data on Kisan Credit Cards (KCCs) for the financial years 2022–2023 and 2023–2024. It shows an increase in the number of operative KCCs from 282.96 lakh in 2022–2023 to 298.14 lakh in 2023–2024, indicating wider farmer outreach. Outstanding crop loans rose from □4,61,391 crore to □4,93,362 crore, reflecting higher agricultural credit demand. Term loan outstanding also increased significantly from □37,551 crore to □46,332 crore. Notably, loans for animal husbandry and fisheries saw a sharp jump from □19,694 crore to □35,279 crore, suggesting focused growth in allied agricultural activities. Overall, the total outstanding loans under KCC rose from □5,18,636 crore to □5,74,973 crore. This growth highlights the expanding scope of institutional credit support to the farming sector.

IX. FUTURE OF FINANCIAL INCLUSION IN INDIA

Commercially unviable in urban area: The rural populace is the primary target of this program. Urban populations make such programs commercially unviable. Last Mile Inclusion: In the upcoming years, India may surpass 95% inclusion based on the efforts of stakeholders such as the government, banks, technology, regulators, and intermediaries in raising financial awareness through official financial channels. There will be fewer people who are financially excluded. Drives to reactivate dormant accounts: According to recent figures, just 2.5 million of the 60 million no-frill accounts that are opened are active. Regulators and the government must embark on a new initiative to reactivate dormant accounts.

CBS: All banks offer basic banking services. In order to provide better service to its consumers, CBS is working to extend the system and provide a wide range of services.

A total of 60 million no-fill accounts are opened, but only 2.5 million of them are currently active. 57.5 million of them are not in use. We can tell from the inactive accounts that they were opened due to social pressure, operating expenses, lack of value addition, stagnation in living quality, lack of faith in technology, and migration.

Insurance inclusion: According to historical data, 10% of Indians have life insurance, whereas only 1% have non-life insurance. The government and regulators ought to start new projects and increase the number of insurance policies and microinsurance programs. Pension Inclusion: The demand for pension inclusion grew as nuclear families became more prevalent. To encourage more people to choose pensions, the government has put in place certain measures.

X. CHALLENGES FOR FINANCIAL INCLUSION IN INDIA

A major obstacle is achieving complete banking coverage for the people of India. Significant duties and efforts must be shared by regulators and consumers in order to achieve financial inclusion. The absence of bank branches in remote areas, stringent rules, and expensive banking fees are just a few of the numerous challenges facing the supply side. Demand-side issues include persistent low literacy rates, a lack of financial literacy, inconsistent income, and a lack of faith in technology. A sizable population continues to be shut out of financial services in spite of several efforts to increase financial literacy. Some of the obstacles to financial inclusion in India are as follows.

Promoting financial services through literacy awareness c ampaigns.

- ✓ Making contact with the underprivileged.
- ✓ The northeast region must be covered.
- ✓ All intermediates should be given precise deadlines.
- ✓ Giving each lead banker a distinct set of duties.

XI. SUGGESTIONS

- ✓ Efforts should be made to improve the public's knowledge about Indian financial services and how to obtain them at a reasonable price.
- ✓ The government must determine and comprehend the reasons why certain rural and semi-rural residents lack financial understanding.
- ✓ The government and authorities ought to take the required actions to develop innovative banking solutions for a range of individuals.
- ✓ There should be initiatives to boost public trust in banks and their offerings.
- ✓ More branches must be opened in outlying locations: and
- ✓ Bank staff should visit underserved areas and offer guidance and encouragement to open accounts and utilize basic financial services.

XII. CONCLUSION

The government has taken a number of steps to promote financial inclusion in recent years, and over 310 million individuals have benefited from official banking services. One of the constructive measures in this direction that is going well was PM Modi's introduction of the Pradhan Mantri Jan Dhan Yojana. However, obtaining more equitable growth and development presents numerous obstacles for both the government and the consumers. Improving underprivileged groups' access to credit facilities was a critical first step toward financial inclusion. Although financial markets and government institutions frequently have limitations, the government should play a significant role in them. It is crucial to develop policies that address and lessen these difficulties.

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