PROSPECTS AND CHALLENGES IN THE IMPLEMENTATION OF FINANCIAL INCLUSION POLICY IN INDIA

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ABSTRACT

Although India's economy is among the largest and fastest-growing in the world, its uneven and discontinuous growth is what most worries observers. It has been uneven in that its growthperformance has varied, and it has also been uneven in that it has It is distinct and separate in terms of growth and how growth gains are distributed to different economic sectors. Economy. In order to eradicate poverty from the nation, a new paradigm of economic growth known as financial inclusion is evolving. It speaks of the provision of financial services to a large population, including both rich and underprivileged individuals, at reasonable terms and circumstances. Regarding economic development and societal advancement, the country places a high focus on financial inclusion. But, in order to generate and mobilise the resourcesessential for achieving the goals of inclusive growth, it is important to be financially included.It plays a significant role in the process of economic growth. This study aims to better understand the phenomenon of inclusive growth, as well as the necessity and cost of it. In order to accomplish it, inclusion is used. Major constraint to achieve financial inclusion in your area of operation" and no statistically significant association was found in the perception of employees' and sub activities (P > 0.05) and as for all the sub variables majority of employees''perceptions were positive. For variables "Reason for low operational rate in no-frills" and "Threat of competition from other institutions in the Financial Inclusion sector", a statistically significant association was found in the perceptions of employees' and sub activities (P <0.05) as besides positive perceptions there were high value of negative perception also.

Keywords: Inclusive Growth & Financial Inclusion, Economic Growth, Mobilization.

INTRODUCTION

Although India's economy is among the largest and fastest-growing in the world, its uneven and discontinuous growth is what most worries observers. It was unequal in that the performance of its growth was not consistent, and the distribution of growth advantages to different economic sectors was discontinuous and disjointed. Globally, there is growingconsensus that financial inclusion is a key factor in both economic progress and the eradication of poverty. Access to formal funding can enhance job

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growth, lessen economic vulnerability, and boost human capital investments.

At the macro level, greater financial inclusion may contribute to inclusive socioeconomic success that is long-lasting and beneficial for all. It has been demonstrated that financial inclusion has a multiplier effect on increasing national economic output, eliminating poverty, and levelling out income disparity. Financial inclusion is especially important for gender equality and the economic empowerment of women. If women have more control over their financial lives, they can help themselves and their families escape poverty, reduce their risk of falling into poverty, end exploitation in the unorganized sector, and improve their capacity to fully engage in quantitative and productive economic activities.

A financial system that is inclusive of all participants supports growth that is fair, honest, and stable. Hence, financial exclusion brought on by various elements such as physical, societal, and psychological barriers should be taken into consideration by policymakers. Some of the most frequent reasons for inadvertent exclusion include the following:

1. Lack of surplus income
2. Not suitable to customers requirements
3. Lack of requisites documents
4. Lack of awareness about products
5. Remoteness of service provider etc.

DEFINITION OF FINANCIAL INCLUSION

"The process of ensuring vulnerable groups, such as weaker portions and low-income groups, have access to affordable financial services, timely and sufficient financing," is how financial inclusion is defined. Committee on Financial Inclusion of the Reserve Bank of India, Dr. C. Rangarajan as Chairman, 2008. Financial inclusion is described as "convenient access to a basket of basic formal financial products and services that should include savings, remittance,

credit, government-sponsored insurance, and pension products to small and marginal farmers and low-income households at a reasonable cost with adequate protection, gradually supplemented by social cash transfer" by the Committee on the Medium-Term Path to Financial Inclusion (Chairman: Shri Deepak Mohanty, RBI, 2015). Together with making it easier for small and marginal firms to access formal financing and using technology more frequently to cut expenses,

The two terms' literal definition, and inclusive growth, relates to both the rate and the composition of economic growth; it merely illustrates growth that is broadly based, shared, and pro-poor. According to the Planning Commission, "inclusive" should be understood as a process that involves including the excluded as players whose participation is crucial in the fundamental design of the development process, not simply as welfare targets of developmentprogrammes. In a more general sense, it indicates that generating economic opportunities and ensuring that everyone has access to them should be the primary goals of inclusive growth as a strategy for economic development.

REVIEW OF LITERATURE

Levine (1997) noted that nations with larger banks and more active stock markets expanded faster over subsequent decades, even after accounting for a number of other factors influencingeconomic growth. It is also crucial that everyone in society has access to money

Pande and Burgess (2003) People can perhaps escape poverty with the aid of finance. A well-developed financial system that is accessible to everybody reduces information and transactioncosts and influences long-term growth rates, investment choices, saving rates, and technological innovation

Beck et al. (2009) Research by Binswanger and Khandker (1995) and Pande and Burgess (2003) shows that India's drive to expand its rural branches decreasedrural poverty and increased employment in non-agricultural sectors.

Government of India (2008) In terms of public policy, financial inclusion has been more prominent recently. To better understand and promote financial inclusion, numerous nations, including India

The United Kingdom (UK) (2006), **and international organisations, like the United Nations (2006) and the World Bank (2008, 2009),** have established task groups or committees. These studies shed light on a number of problems related to financial inclusion. Unfortunately, the measurement aspect of financial inclusion has not yet been sufficiently handled in these articles. To find a way to lift people out of poverty is one of development economics' main objectives. For a long time, it has been believed that having access to

financing is essential for people to change the ways in which they produce and find work. **Mehrotra et al. (2009)** based on particular aggregate variables from banking data for sixteen significant Indian states, including the quantity of rural deposits and credit, the number of rural offices, and the number of rural depositaccounts.

World Bank (2008) offers a composite measure of financial services access for 51 countries, i.e., the proportion of the adult population with a financial intermediaryaccount.

World Bank (2009) looked at the relationship between access to banking services, as measured by the number of adult bank accounts per thousand in each country, and a number of other factors such transactions provided by banks or required by banks, and laws in banking the Poor. Banking access to 45 nations.

Financial Inclusion in India: A Case-Study of West Bengal, a working paper by Sadhan Kumar Chattopadhyay for the RBI, examined the level of financial inclusion in **West Bengal (2011)**. The poll indicates that there has been a little improvement in outreach effort for the banking industry. Based on data from the three financial inclusion aspects of banking penetration (BP), availability of banking services (BS), and banking system utilization (US), the study generated an index of financial inclusion (IFI) (BU). Based on IFI rankings, the study presents a consistent picture of various states.

OBJECTIVES OF STUDY

1. To study the concepts of financial inclusion with reference to India.
2. To ascertain various factors affecting access to financial services, importance of Financial inclusion and consequences of financial exclusion.
3. To analyze various important regulatory initiatives taken by the Reserve Bank of India to strengthened financial inclusion in India.
4. To study present scenario and future prospects of financial inclusion.

HYPOTHESIS

H0: There is no significant association between financial awareness and financial inclusion.
H1: There is significant association between financial awareness and financial inclusion.

RESEARCH METHODOLGY

To meet the objectives of the study, data was collected using both primary and secondary sources. Being empirical study, it is largely based on primary data collected by the researcher through self-administered questionnaires designed by the researcher keeping in view the available theoretical literature and the objectives of the study.

Primary data – The primary data has been collected through questionnaires from 165 respondents.

Secondary Data – The sources of collecting secondary data for research study include, reports (published and unpublished) and annual proceedings from RBI, NABARD, Government etc., Articles from Magazines, Journals & Newspapers, Research papers, web sources, published and unpublished research projects, surveys and reports. In this study testedthe hypothesis by chi-square test.

CONCEPT OF FINANCIAL INCLUSION

Global interest in financial inclusion is growing. Financial inclusion refers to providing credit and other financial services to the great majority of underprivileged and low-income people at cost. Financial inclusion aims to broaden the activities of the established financial system to include low-income individuals within its purview. "Financial inclusion is the process of ensuring that vulnerable groups, such as weaker parts and low income groups, have access to financial services and timely and enough credit as needed at an affordable cost." C. Rangarajan,the head of the Committee for Financial Inclusion. Access to financial services like payments,savings, insurance, and inflation-protected pensions is being widened by financial inclusion. A report of the Raghuram Committee on Banking Sector Reforms (CFSR).

It is a procedure that makes sure that everyone in an economy may easily access, use, and be apart of the official financial system. This definition places an emphasis on a number of aspects of financial inclusion, including usage of the financial system, accessibility, and availability. Together, these elements form an inclusive financial system (Sarma, 2010). A concise yet comprehensive definition of financial inclusion is offered by the Center for Financial Inclusion."Full financial inclusion is a condition in which everyone who can benefit from them has access to a comprehensive range of high-quality financial services that are offered at competitive rates,conveniently, and with respect for the clients.

Financial services are provided by a variety of organisations, the most of which are private, and are accessible to everyone, including those who are impaired.

IMPORTANCE OF FINANCIAL INCLUSION

According to Mr. Dongre, less than half of the population has access to a bank account. The only way to change this scenario is to priorities financial inclusion. Only by facilitating this process through community-led efforts could this be realised and maintained. The living conditions of underprivileged farmers, rural non-farm businesses, and other vulnerable populations must be improved. Not only in India but also in many other nations, the necessity of an inclusive financial system is generally acknowledged in the policy community. Several nations now view financial inclusion as a way to achieve more inclusive growth where each individual is able to use their earnings as a financial resource that they can use to work. It is primarily a demand side issue in developed markets. The banking sector, governments, and financial regulators have all taken steps to promote financial inclusion. In order to promote financial inclusion, the banking industry has taken the initiative (Chakrabarty, 2011). Including the vast majority of the underserved population in the banking system will create numerous business opportunities, such as luring foreign investors to our nation, which will increase employment and business opportunities, the development of our nation with equality, the eradication of poverty, the ability to conduct financial transactions quickly and easily, and access to secure savings accounts and other ancillary services like insurance and business loans.

REGULATORY INITIATIVES TAKEN TO STRENGTHENED FINANCIAL INCLUSION

Due to good developments in both of its elements, namely intensity change and technology change, inclusion growth has experienced positive and beneficial modifications (Gokarn, 2011). By establishing a panel led by Shri H R Khan, the government started taking action forfinancial inclusion in 2004. With the Rangarajan Committee Report in 2008, significant measures were planned.

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Relaxing of know-your-customer (KYC) standards for no-frills account opening: In August 2005, KYC standards for creating bank accounts were loosened for modest accounts. Also, thebanks were allowed to accept any acceptable proof of the customer's identity and address. The Unique Identification Authority of India's letters comprising information on name, address, and Aadhaar number have now been added.

Introduction of General Credit Cards: Banks have been instructed to think about offering general purpose credit cards with a limit of up to Rs 25,000 at their rural and semi-urban branches in order to assist the underprivileged and the destitute by providing them with simpleaccess to credit. The scheme's goal is to offer hassle-free loans to bank customers based on anevaluation of cash flow without requiring any specifics regarding security, purpose, or ultimateusage of the credit.

Program for SHG Bank Linkage One of the main initiatives to get low income, poor people into the banking system is the credit linkage of Self-Help Groups (SHG) and Joint Liability Groups (JLG) by Commercial Banks. When the group's reserves are sufficient, the poor people pool their resources and disburse small loans to each member as needed.

Financial Inclusion Fund and Financial Inclusion Technology Development Fund were established by the central government to cover the costs of technological, promotional, and development activities. To improve its refinancing activities for short-term cooperative lendinginstitutions, NABARD established a fund worth Rs. 5,000 crores.

PROSPECTS

1. With the aid of the financial inclusion idea, disadvantaged individuals can secure finance forthe bulk investment required in enterprises, such as for purchasing equipment or items at a wholesale price, by saving modest amounts over time.

2. Fostering financial inclusion and promoting saving behaviors can also provide funds for looking for more lucrative employment opportunities by giving even rural areas access to simple financing and banking services.

3. Electronic benefit transfer (EBT): With the use of EBT and information and communication technology, banks may send government benefits to recipients' doorsteps and deposit social benefits electronically into their bank accounts, minimizing the need for cash and transaction expenses.

4. Banking systems will be updated to new technologies, such as EBT, to ensure the availability of financial services to all segments at a reduced cost and enhanced benefits, such as makes banking convenient, which ensures being able to transact close to where they live and work, and ensures trust among the people that they are putting their money with such organisations that seem to care for them and who they fee

5. Financial inclusion gives the banking industry the chance to reach out to people from all social classes, geographic areas, genders, and income levels and persuade them to adopt a banking habit. The Central Bank of India has taken action to ensure that financial inclusion is successful by creating numerous laws, promoting financial literacy, utilizing technology, etc.

6 Financial inclusion ensures timely and rapid availability among the needy sectors, paving theway for growth and development.

7. In addition to safe savings, financial inclusion will offer many additional ancillary servicesincluding insurance protection, business loans, payment and settlement options, etc.

8. Financial inclusion accelerates the banking process, lowering cash and noncash costs for bothbanks and clients with the use of KYC standards and UID.

9. Financial accessibility will also draw international players to our nation, which will increasebusiness and employment opportunities.

10. Financial inclusion will assist the underprivileged in addressing a variety of needs by providing them with a wide choice of financial services that are both accessible and cheap. Financial services will offer tools that will facilitate the provision of simple financing optionsin a variety of sectors, such as assisting microenterprises in investing in new production technologies, farmers in purchasing productivity-enhancing inputs like fertilizers, workers in looking for better employment opportunities or children's education, and people in reducing their exposure to significant Lifecycle Events or unpredictable risks.

CHALLENGES

The path to financial inclusion is fraught with difficulties, including the following:

1. Financial services are only used by a portion of the population; those excluded are found in rural, impoverished areas where it is difficult to offer these financial services; these areas rely primarily on the informal sector (moneylenders, etc.) for financing, which is frequently offered at exorbitant rates. The biggest difficulty with financial inclusion is including the poor and rural populations in the coverage region.
2. Financial illiteracy is another issue that hinders financial inclusion. People cannot get financial services because they are not well educated.
3. The poor do not fully utilize financial services, especially in urban areas, since they find them to be expensive and prohibitive, which discourages the poor from using them.
4. Due to long travel times between the bank and the home, inadequate infrastructure, etc., impoverished and rural areas may occasionally sign up for certain financial services initially but

may not use them as frequently as others.

5. Another difficult area in the pursuit of financial inclusion is low-income levels, when many believe that banks solely serve the wealthy class.
6. People don't feel comfortable utilizing financial services because of the difficulty in understanding formal languages, the variety of documentation, and the numerous formalities in banking procedures. It might be challenging for many residents of rural communities to get to the locations where banks are often located.
7. The issue in implementing financial inclusion is that many people lack fundamental information and education and do not understand the value of financial products like insurance, finance, bank accounts, check facilities, etc.

Present scenario of Financial Inclusion: -

One of the largest issues facing the banking industry today is financial inclusion. The Reserve Bank has been urging the banking industry to grow its branch network both by opening additional locations and also by utilizing the BC model by utilizing information and communication technologies (ICT). All of these initiatives increased the state of financial inclusion in 2021–2022, compared to the previous year (Table1). As compared to the year before, 2020–2021, the various metrics included in the table below show growth in 2021–2022.Nonetheless, it is startling how widespread financial exclusion is.

Table 1: Progress of Financial Inclusion

No.	INDICATORS	2020-2021	2021-2022
1	Credit-GDP	65.40	69.60
2	Credit-Deposit	76.60	79.50
3	Population per Bank Branch	15312.00	13466.00
4	Population per ATM	19201.00	16243.00
5	Percentage of Population having deposit accounts	61.80	68.20
6	Percentage of Population having credit accounts	12.30	14.90
7	Percentage of Population having debit cards	15.20	18.80
8	Percentage of Population having credit cards	3.53	6.49
9	Branches opened in hitherto unbanked centers as a per cent of total new bank branches	9.60	15.70

Source: Report on Trend and Progress of Banking in India for the year ended June 30, 2022,RBI)

https://rbi.org.in/Scripts/AnnualPublications.aspx?head=Trend%20and%20Progress%20of%20Banking%20in%20India

Association between Financial Awareness and Financial Inclusion

H0: There is no significant association between financial awareness and financial inclusion

Table 2: Being Aware of the formal financial products and services & Financial Inclusion Status

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Aware of the formal financial products and services (savings, loans, insurance and payments/remittances)		Group			Total
		Active Financial Inclusion	Passive Financial Inclusion	No Financial Inclusion	
Strongly Disagree	Count	4	5	21	30
	%	9.63%	11.27%	9.27%	13.8%
Disagree	Count	10	22	15	47
		15.0%	17.66%	14.52%	40.0%
Neutral	Count	19	16	9	44
	%	14%	16.53%	13.6%	12.5%
	Count	5	11	2	17
Agree	%	5.4%	6.38%	0.10%	9.0%
Strongly agree	Count	15	8	4	27
	%	8.67%	10.14%	8.4%	24.7%
Total	Count	53	62	51	165
	%	100.0%	100.0%	100.0%	100.0%
Pearson Chi-Square		Value	Df	P Value	Result
		159.432	8.000	0.000	Significant

Most of the respondents (40%) disagreed to be aware of the formal financial products and services followed by nearly 25% of respondents who strongly agreed the statement. Approx. 14% strongly disagreed, 12.5% were neutral while, the least i.e., 9% agreed the statement. However, of respondents having active financial inclusion, most of the respondents (nearly 57%) agreed to be aware; out of respondents having passive financial inclusion most of the respondents (approx. 57%) disagreed to be aware; out of respondents not having financial inclusion more than 80% respondents disagreed to be aware of the formal financial products and services.

Chi-square test was applied to know the association between awareness about formal financialproducts and services and financial inclusion and a statistically significant ($p<0.05$) associationwas found between the two, showing lack of awareness about formal financial products and services indicates less financial inclusion.

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Table 2: Problems & Constraints in Financial Inclusion Activities

Problems & Constraints in Financial Inclusion Activities						Chi Square Test
Main Variables	Sub Problems	Yes		No		
		N	%	N	%	
Major constraint to achieve financial inclusion in your area of operation	Lack of motivation for management	36	64.29	20	35.71	$X^2 = 3.603$ df = 6 P = 0.730 Non-Significant
	Unavailability of Technological support	36	64.29	20	35.71	
	Unskilled Employees'	36	64.29	20	35.71	
	Low financial literacy in target group	32	57.14	24	42.86	
	High default rate/ slow collection	40	71.43	16	28.57	
	Language Constraint	36	64.29	20	35.71	
	Social Norms	40	71.43	16	28.57	
Reason for low operationalrate (activeaccounts) in no-frills	Unemployment	40	71.43	16	28.57	$X^2 = 14.85$ df = 4 P = 0.005 Significant
	Financial illiteracy	48	85.71	8	14.29	
	Negative Experiences with Banks	32	57.14	24	42.86	
	Adding other bank accounts and then letting no-frills become in-active	32	57.14	24	42.86	
	Requirements from employers to open a particular bank account	40	71.43	16	28.57	

FINDINGS

The above table shows the distribution of employees'' perceptions about Problems & Constraints faced in Financial Inclusion Activities.

The first main variable was defined as **"Major constraint to achieve financial inclusion inyour area of operation"** and no statistically significant association was found in the perception of employees' and sub activities ($P > 0.05$) and as for all the sub variables majority of employees'' perceptions were positive.

For variables **"Reason for low operational rate in no-frills" and "Threat of competition from other institutions in the Financial Inclusion sector",** a statistically significant association was found in the perceptions of employees' and sub activities ($P < 0.05$) as besides positive perceptions there were high value of negative perception also.

The next main variable is **Other** which includes **"KYC norms act as a barrier towards inclusion"** and for this perceptions of employees' nearly 57% of respondents agreed. Due to single variable, chi squared test can't be applied for this variable.

CONCLUSION

To achieve inclusive growth, growth opportunities and benefits must be distributed fairly. Andone of the most crucial chances that must be made available equally across the nation for the country to experience overall progress is financial inclusion. The government must realise that inclusive financing must be maintained in order to promote orderly growth. Without a doubt, extending geographic and demographic reach presents challenges for viability andsustainability. Appropriate commercial models are constantly being developed, and different delivery systems are being evaluated by various federal and state-level government organisations. Nonetheless, the measures made are insufficient to address the obscene problemof financial isolation. Chakrabarty K.C (2011), "Financial Inclusion and Banks: Issues and Perspectives", Reserve Bank of India Bulletin November issue, Reserve Bank of India.

RECOMMENDATIONS

To achieve the goal of providing universal access to financial services, it is crucial to provide a strong and efficient digital network infrastructure to all financial service outlets/touch points for continuous supply of financial services. It is also advised that the digital financial infrastructure be expanded to cooperative banks and other specialized banks (Payments Banks,Small Finance Banks), as well as other non-bank entities like fertilizer shops, offices of local government bodies / Panchayats, fair price shops, common service centers, educational institutions, and so on, in order to promote efficiency and transparency in the services offeredto customers. Banks may endeavor to find solutions to issues like compensation, the requirement to offer cash-based collaterals, and cash retention limits in order to build the BC network.

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