



Mains Practice Question

Q. Financial inclusion is one of the most crucial pillars of India's economy. Discuss its challenges and suggest some measures for enhancing financial inclusion in India. (250 words)

07 Dec, 2022 GS Paper 3 Economy

Approach

- Start your answer by briefly explaining financial inclusion.
- Discuss the importance of financial inclusion in India.
- Highlight the various challenges regarding financial inclusion.
- Conclude your answer by suggesting some measures to enhance financial inclusion in India.

Introduction

- Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

Body

- **Importance of Financial Inclusion:**
 - **Develop Savings:** Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segments of rural population and plays its own role in the process of economic development. Further, by bringing low-income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances.
 - Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.
 - **Multiplier Effect in Boosting Economic Output:** There has been growing evidence on how financial inclusion has a multiplier effect in boosting overall economic output, reducing poverty and income inequality at the national level.
 - **Promote Gender Equality:** Financial inclusion of women is particularly important for gender equality and women's economic empowerment. With greater control over their financial lives, women can help themselves and their families to come out of poverty; reduce their risk of falling into poverty; eliminate their exploitation from the informal sector; and increase their ability to fully engage in measurable and productive economic activities.
- **Challenges Related to Financial Inclusion:**
 - **Non-Universal Access to Bank Accounts**
 - Bank accounts are a gateway to all financial services. But, according to a report (2021) by the World Bank, about 190 million adults in India do not have a bank account, making India the world's second largest nation in terms of unbanked population after China.
 - **Digital Divide**
 - The most common barriers to the adoption of digital technology which may promote financial inclusion:

- Non-availability of suitable financial products
- Lack of skills among the stakeholders to use digital services
- Infrastructural issues
- Low-income consumers who are not able to afford the technology required to access digital services
- **Informal and Cash-Dominated Economy**
 - India is the heavily dominated cash economy; this poses a challenge for digital payment adoption.
 - Also, according to the International Labour Organization (ILO), about 81% of the employed persons in India work in the informal sector.
 - The combination of a huge informal sector along with a high dependence on cash mode of transaction poses an impediment to digital financial inclusion.
- **Gender Gap in Financial Inclusion**
 - According to the 2017 Global Findex database, 83% of males above 15 years of age in India held accounts at a financial institution in 2017 compared to 77% females.
 - This is attributed to socio-economic factors, including the availability of mobile handset and internet data facility being higher among men than women.

Conclusion

- **Expand digital coverage:** In order to achieve the objective of providing universal access to financial services, it is important to provide a robust and efficient digital network infrastructure to all the financial service outlets / touch points for seamless delivery of the financial services.
 - It is also recommended to extend the digital financial infrastructure to co-operative banks and other specialised banks (Payments Banks, Small Finance Banks) as well as other non-bank entities such as fertilizer shops, Office of the Local Government bodies / Panchayats, etc. to promote efficiency and transparency in the services offered to customers.
- **Enhance banking coverage:** Increasing outreach of banking outlets of Scheduled Commercial Banks /Payments Banks/ Small Finance Banks, to provide banking access to every village.
- **Utilize Fin-tech space:** Leverage on the developments in fin-tech space to encourage financial service providers to adopt innovative approaches for strengthening outreach.
- **Universal Access to Financial Services:** The digital infrastructure in the country needs to be expanded through better networking of bank branches, Micro ATM, Point of sale (PoS) terminals and stable connectivity etc.