



Mains Practice Question

Q. Financial inclusion is crucial for achieving inclusive growth. Discuss the progress made in financial inclusion in India and the challenges that remain. **(250 words)**

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Approach

- Introduce the answer by defining financial inclusion
- Highlight the progress made in Financial Inclusion in India
- Delve into challenges that remain
- Suggest a Way Forward
- Conclude suitably.

Introduction

Financial inclusion is the process of ensuring **access to affordable and appropriate financial products** and services like **bank accounts, credit, insurance, and payments** for all sections of society, especially the **underprivileged and unbanked population**.

- It plays a crucial role in promoting **inclusive growth** by enabling economic participation and empowerment of marginalized communities.

Body

Progress Made in Financial Inclusion in India:

- **Account Opening:** As of June 2024, **over 52 crore beneficiary accounts** have been opened under **Pradhan Mantri Jan Dhan Yojana (PMJDY)**, with deposits exceeding **₹2.2 lakh crore**.
 - The scheme provides **basic banking accounts and overdraft facilities**, bringing the unbanked into the formal financial system.
- **Expansion of Banking Infrastructure:** To increase access, India has witnessed a significant expansion of banking infrastructure, including **branches, ATMs, and Banking Correspondents (BCs)**.
 - The private banks have boosted the number of branches by **60% since 2015**
 - The **Business Correspondents model** has facilitated last-mile delivery of banking services in remote areas.
- **Digital Financial Inclusion:** The government has promoted digital financial services through initiatives like the **Unified Payments Interface (UPI), Aadhaar-enabled Payment System (AePS), and the RuPay card network**.
 - India recorded about **131 billion UPI transactions** in FY24.
 - The AePS has enabled **Aadhaar-based biometric authentication** for banking services in remote areas.
- **Credit Access:** Schemes like **Pradhan Mantri Mudra Yojana (PMMY) and Stand-Up India** have facilitated access to credit for small businesses, entrepreneurs, and underserved communities.
 - As of March 2024, loans amounting to **Rs 27.75 lakh crore** have been disbursed under

the PMMY..

- **Insurance Coverage:** The **Pradhan Mantri Suraksha Bima Yojana (PMSBY)** and **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)** have provided affordable insurance coverage to millions of low-income households.

Challenges that Remain:

- **Persistent Gender Gap:** Despite progress, a significant gender gap persists in access to financial services, with women facing cultural, social, and economic barriers.
 - Women in India own **35% of bank accounts**, but only 20% of total deposits as of March 2023. .
- **Low Financial Literacy:** Low levels of financial literacy, especially among marginalized communities, act as a **barrier to effective utilization of financial services**.
 - A recent surveys reveal that **only 27%** of India's population is financially literate
- **Limited Account Usage:** Around 20% of PMJDY accounts were inoperative as of December 2023, indicating limited usage of financial products beyond basic accounts.
- **Sustainability and Viability of Financial Inclusion Initiatives:** Maintaining the sustainability and viability of financial inclusion initiatives remains a challenge, as many programs rely on **government subsidies or cross-subsidization** from other banking services.

Way Forward

- **Focus on Financial Literacy:** Financial literacy campaigns targeted at **specific demographics** can empower individuals to make informed financial decisions and utilize financial products effectively.
- **Product Innovation:** Developing need-based financial products, such as **micro-insurance and micro-loans tailored for low-income groups**, can address their specific financial needs.
- **Leveraging Fintech:** Further integration of Fintech solutions in **different government touchpoints** can enhance accessibility and affordability of financial services, particularly in rural areas.
 - Establishing Credit Counseling Centres such as **ABHAY**.
- **Acting Upon Recommendations of Rangarajan Committee:** Promoting micro-insurance as a critical component of financial services for the poor to mitigate risks effectively.
 - Implementing the **Revival Package for the cooperative credit system** to strengthen its role in financial inclusion with substantial financial assistance.
 - Adopting and promoting the JLG model for extending credit to mid-segment clients such as small and tenant farmers without collateral.
- **Bridging the Digital Divide:** Expanding internet reach and promoting digital literacy programs are **crucial to ensure everyone can participate in the digital financial ecosystem**.

Conclusion

India's journey towards financial inclusion is commendable. However, by addressing the remaining challenges as per the recommendations of the **Rangarajan committee report on financial inclusion**, India can ensure that the benefits of financial inclusion reach all sections of society, **fostering inclusive and sustainable economic growth**.