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Financial Inclusion: A Critical Analysis of Financial Services in the Indian Economy

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Abstract:
India is shifting toward greater financial inclusion while striving to improve affordability and security of the rural economy and is poised to be one of the fastest growing economies in coming years, showing the highest digital transactions but lack of access to formal credit, as a proportion of GDP is still very poor compared to countries like China and the US.
Financial inclusion is a cornerstone of development. Pradhan Mantri Jan-Dhan Yojana (PMJDY) is national mission for financial inclusion to ensure access to basic saving accounts, deposits, remittance & settlements, credit facility, insurance, pension & all other financial services in an affordable manner. Financial inclusion is a major issue around the world. Despite the several measures taken by the government to enhance credit availability for a complete financial inclusion a large stake of the total Indian population is lacking behind and relying on the traditional mechanism and lending channels. Nearly one and half billion people living in emerging economies don't have access to formal savings and credit. They use cash for everything, have no secure way to save and invest their money, and rely on informal lenders and personal networks for credit. Additionally, 50.7 million MSME enterprises out of 63.4 million MSME's in India have an access to traditional lending channels. Why people will attach themselves to a system of financial inclusion if they do not know about the power of money–its growth pattern, mechanism, or spending & saving schemes.

Keywords: Financial inclusion; PMJDY; beneficiaries; bank; policy

Research Methodology:
Study is based on electronic literature, several past research publications and is exploratory and descriptive in nature.

Research Objective:
The objective of this study is to investigate the distribution patterns of financial services, challenges and barriers faced by the financial institutions and effectiveness of Pradhan Mantri Jan Dhan Yojana (PMJDY) for a comprehensive analysis of opportunities where these financial institutions need to tap the market for the further expansion of their business to improve the socioeconomic status of rural people, to ensure a nationwide sustainable financial inclusion and to become a fastest economy in the world.

1. Introduction:

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is national mission for financial inclusion to ensure access to basic saving accounts, deposits, remittance & settlements, credit facility, insurance, pension & all other financial services in an affordable manner. Financial literacy is considered as fourth pillar of financial inclusion, with the other three being – technology, women inclusion, and regulation.

This study shows the practices over the past 10 years on financial issues in India and how the required gap can be bridged using fintech and financial literacy.

Financial inclusion refers to the ease with which formal financial services, such as bank deposits, credit, insurance, etc., are available to all members of an economy. In other words, a high level of inclusivity in a financial society denotes that the conditions in which the vast majority of an economy's participants use formal financial institutions enable them to benefit from financial services and achieve capital stability (Kim et al., 2018).[1]

The importance of financial inclusion was proclaimed as one of the nine essential principles of the global development agenda at the G20 Summit in Seoul, South Korea. It is estimated that around 30 per cent of the worldwide population is financially excluded and has financial stability issues (GPFI, 2011).[2]

Financial inclusion is the effort to make financial products and services available and affordable to all individuals and businesses.

In this context, this study is essential because financial inclusion may help alleviate poverty by improving deposit and credit facilities for the poor and optimizing resource allocation. The World Development Report underlines the value of improving poor people's access to financial services, particularly credit and risk insurance, to boost their productive assets, increase their output, and expand their chances for long-term sustainability (World Bank, 2001).[3]

2. Literature Review:

In recent decades, financial participants have focused more on financial inclusion. The association between the financial sector and economic expansion has received much attention.

Some research studies have shown that that economic development can be explained by domestic savings, capital accumulation, technical innovation, income growth, and financial determination (Andrianova & Demetriades, 2008)[4]; Levine, R., Loayza, N., & Beck, T. (2000)[5]. However, the financial sector's growth context is predicted to result in financial inclusion circumstances, which indicates that financial inclusion has a significant positive impact on economic growth. As per report (Kim et al., 2018), financial inclusion and economic growth are mutually related. The development context in the financial sector is expected to lead to financial inclusion conditions.

In a research "Does financial inclusion reduce poverty and income inequality in developing countries", published in a Journal of Economic Structures, it has been investigated that financial inclusion dramatically lowers poverty and reduces income disparity. Additionally, extending financial inclusion to the marginalised population helps to maximise overall social well-being (Omar, M. A., & Inaba, K., 2020)[6].

Financial development helps developing nations in reducing poverty and expansion of financial services up to a threshold level in economic development lowers the poverty (Jalilian & Kirkpatrick, 2005).[7] The problem of difficult loans for small and medium sized enterprises and ordinary farmers in rural areas is very prominent, and the gap in rural capital deposit and loan is very serious. A large number of rural capital outflows cannot effectively support the development of agricultural economy (X. S. Song et al, 2019).[8]

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.

"Financial inclusion is when everyone can access financial services that can help them build wealth, including savings, credit, loans, equity and insurance" (McKinsey, 2023).[9]

Financial inclusion strives to remove the barriers that exclude people from participating in the financial sector and using these services to improve their lives.

According to the World Bank's 2021 Global Findex Report, up to 38 per cent of adults in developing countries remain unbanked (Global Findex Report, 2021).[10]

COVID-19 boosted the adoption of digital financial services: About 40 per cent of adults in developing economies excluding China who made a digital merchant payment using a card, phone, or the internet, and more than one-third of adults in developing economies who paid a utility bill directly from an account, did so for the first time after the start of the pandemic (The Global Findex Database, 2021).[11]

Open financial data is a critical enabler of financial inclusion. The phrase "open financial data" refers to the ability to share financial data through a digital ecosystem in a way that requires limited effort or manual intervention.

As per McKinsey Global Institute Analysis 2021: Broad adoption of open-data systems could confer up to a 1.5 per cent gain in GDP by 2030 in the United Kingdom, European Union, and the United States, and as much as 5 per cent in India.[12]

Open financial data can create economic value by benefiting financial institutions, individuals, and small and midsize enterprise customers. For consumers, benefits include the following:

- **Increased access to financial services:** Open data sharing can enable customers to buy and use financial services they might not be able to otherwise access and Limited data in some markets might disqualify customers from accessing loans. Open data can help assess the creditworthiness of potential borrowers by sourcing rent, phone, and utility bill payment history.
- **Greater user convenience:** Data sharing can save time for customers in their interactions with financial-service providers. For instance, open access to data on available mortgage products can allow customers to apply for loans without needing to go through mortgage brokers.
- **Improved product options:** An open-data system could make it easier to switch accounts from one institution for another, helping customers get the best yield.

"This is a significant opportunity for banks to expand their retail lending. However, the surge in account openings is not translating into credit penetration. A report by TransUnion CIBIL, a credit information agency, highlights that a lot more work needs to be done in expanding access to formal credit. The report found that out of 220 million people in India that are eligible for a loan based on the fact that they are between the age of 20 and 69 and earn at least ₹250,000 a year only 72 million, or 33 per cent, had an active account at a bank or lending institution. Rather than bemoaning the lack of access to formal credit as a problem, however, TransUnion CIBIL says this represents a significant opportunity for banks to tap into. Following the massive pileup in non-performing loans, banks are becoming wary of lending to companies. They have relied on retail lending, that is loans given to individuals for housing, cars or investment purposes, to drive credit growth."[13] The TransUnion CIBIL research showed that there has been a significant increase in credit served consumers, from 91 million in 2017 to 179 million in 2021, bringing estimated credit served levels from 12 per cent to 22 per cent of the adult population.

Account openings aren't the sole determinant of financial inclusion. Financial literacy programmes are vital in enabling account holders to make proper use of their banking facilities and overcome their resistance to using phones for banking purposes. The government also needs to encourage the establishment of credit bureaus to underwrite individual loans - something that can be achieved by the continued linking of bank transaction information with Aadhar details.

"Additionally, it is precisely because of lack of access to formal credit that India's household debt, as a proportion of GDP, is still very low compared to countries like China and the US. According to a working paper by the IMF, India's household debt is a little less than 10 per cent of the GDP compared to 150 per cent in the US and 44 per cent in China. As banks expand access to credit, the government will have to keep a watch on this statistic."[14]

The future of financial inclusion is likely to be shaped by advancements in fintech, such as artificial intelligence, block chain, and digital currencies.

Additionally, greater emphasis on data privacy and security, along with regulatory developments, will influence the trajectory of financial inclusion initiatives worldwide.

Global Financial Stability Report, April 2021: Pre-empting a Legacy of Vulnerabilities; April 6, 2021.[15] Financial inclusion contributes significantly to poverty reduction, irrespective of the indices of poverty level and utilisation of financial inclusion (Kumar, V., 2023).[16] As per recent report of Association of Chartered Certified Accountants, nearly 50.7 million MSME enterprises out of 63.4 million (approximately 80 per cent) MSME's in India have an access to traditional lending channels.[17]

3. Data and Sources:

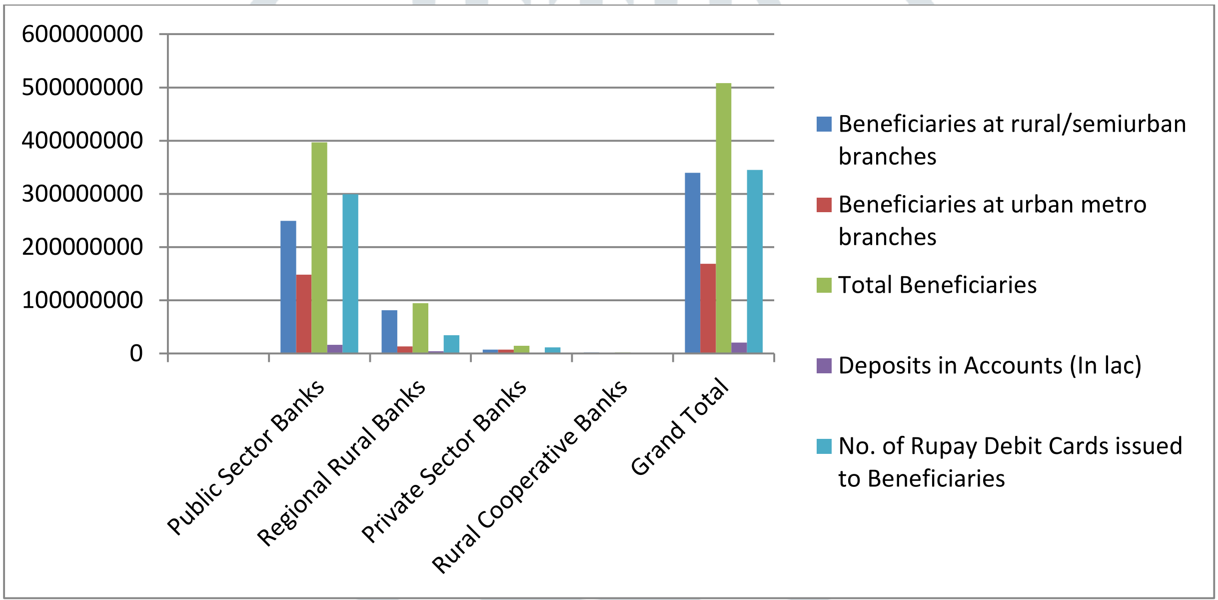
Data in the below table-1 shows the categories of financial institutions, total number of beneficiaries in the rural, urban and semi_urban areas, their bank deposits and number of Rupay Cards issued to beneficiaries by the banks in India.

Table-1: Analysis of Pradhan Mantri Jan-Dhan Yojana (PMJDY)

Pradhan Mantri Jan Dhan Yojana (PMJDY) Bank Categorywise Report as on 25/10/2023					
Type of Banks	Beneficiaries at rural/semiurban branches	Beneficiaries at urban metro branches	Total Beneficiaries	Deposits in Accounts (In lac)	No. of Rupay Debit Cards issued to Beneficiaries
Public Sector Banks	249031832	147939992	396971824	16070741.27	299055827
Regional Rural Banks	81167197	13547026	94714223	3959504	34387655
Private Sector Banks	7192766	7346135	14538901	585701.18	11688446
Rural Cooperative Banks	1884036	0	1884036	1.25	0
Grand Total	339275831	168833153	508108984	20615947.7	345131928
Source: Department of Financial Services, Ministry of Finance, Govt. of India					

3.1 A Graphical representation of banking data mentioned above in the Table-1.

Figure-1: Analysis of Bank Category wise Report



The Pradhan Mantri Jan Dhan Yojana (PMJDY) Bank Category wise Report as of 25/10/2023 offers valuable insights on financial inclusion, government initiatives, and banking sector dynamics.

4. Socioeconomic Impact Assessment and Empirical Analysis of Results:

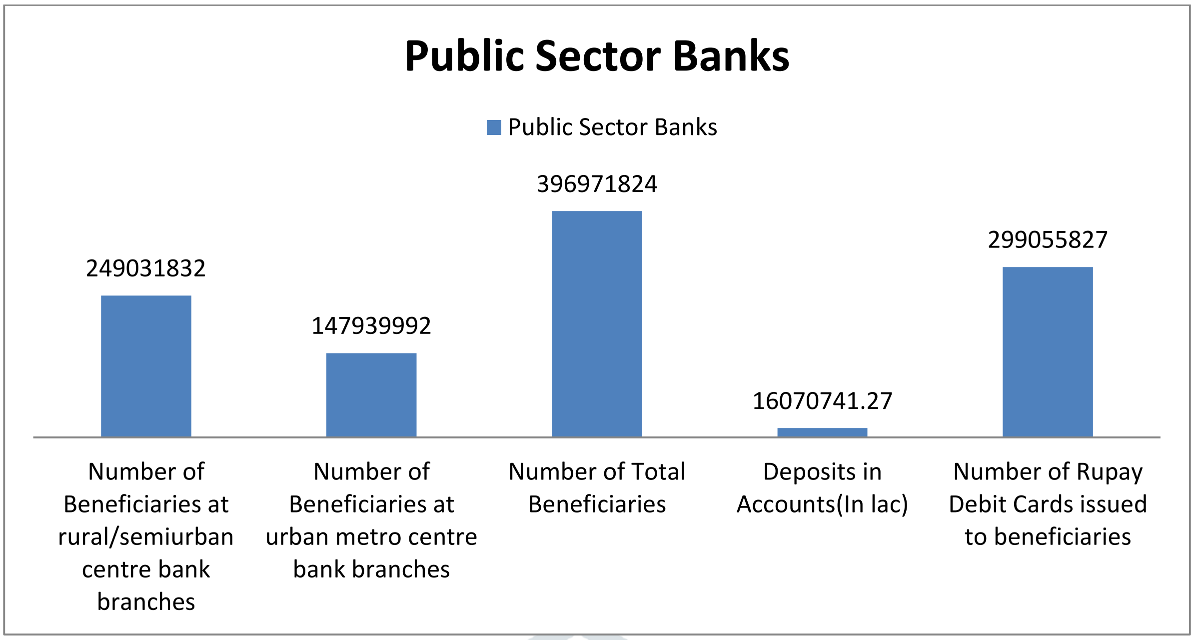
Research explores the socioeconomic impact of PMJDY by examining how increased access to banking services has influenced income, savings, and overall economic well-being in both rural and urban areas. Incorporating these analyses into research papers can provide a comprehensive understanding of the PMJDY's impact on financial inclusion and contribute valuable knowledge to the broader discourse on inclusive economic development.

Here is the deeper investigation into the analysis of the Pradhan Mantri Jan Dhan Yojana (PMJDY) Bank Category wise Report as of 25/10/2023, explaining the reasons behind the observed trends:

4.1 A Comprehensive Analysis of PMJDY Beneficiaries and Financial Inclusion-

The data highlights the significant advances in financial inclusion, with over 508 million beneficiaries, demonstrating the broad reach of PMJDY across diverse bank categories.

Fiure-2: Analysis of Public Sector Banks



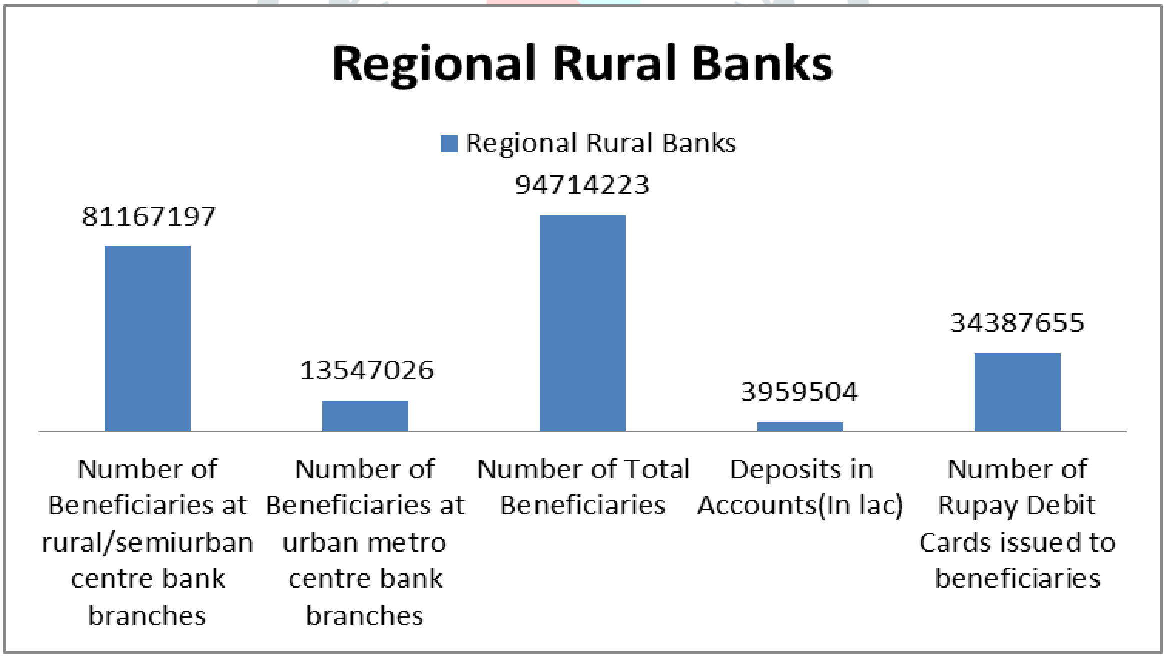
4.2 Public Sector Banks' Leadership:

Public Sector Banks emerge as pivotal players, serving the largest number of beneficiaries, nearly 397 million in numbers and accumulating substantial deposits of Rs. 1,60,70,741.27 Lakh.

Issuance of Rupay Debit Cards to around 299.055827 million beneficiaries shows the seriousness of Public Sector Banks towards a sustainable development of rural as well as urban areas.

This highlights their crucial role in implementing government-driven financial inclusion programs.

Fiure-3: Analysis of Regional Rural Banks



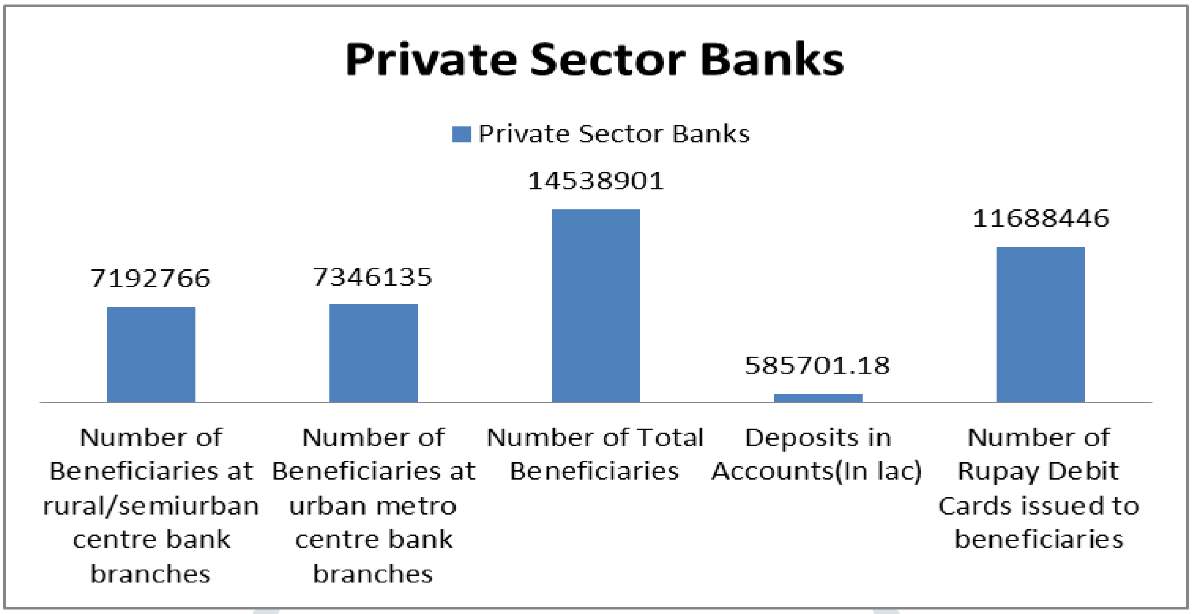
4.3 Emphasis of Regional Rural Banks (RRBs) on Rural Areas:

Rural-Focused Strategy: RRBs predominantly cater nearly 81.167197 million beneficiaries of rural/semi-urban areas out of 94.7 million people in total. Result shows an imbalance in supply of services between the rural and urban part of the economy. Very poor performance of RRBs in urban metro area is the evidence and shows the higher beneficiary count in rural/semi-urban regions.

Issuance of Rupay Debit Cards to 34.387 million beneficiaries shows its contribution towards making India self-reliant and degree of seriousness of **RRBs** compared to PSBs towards a sustainable development of rural as well as urban areas.

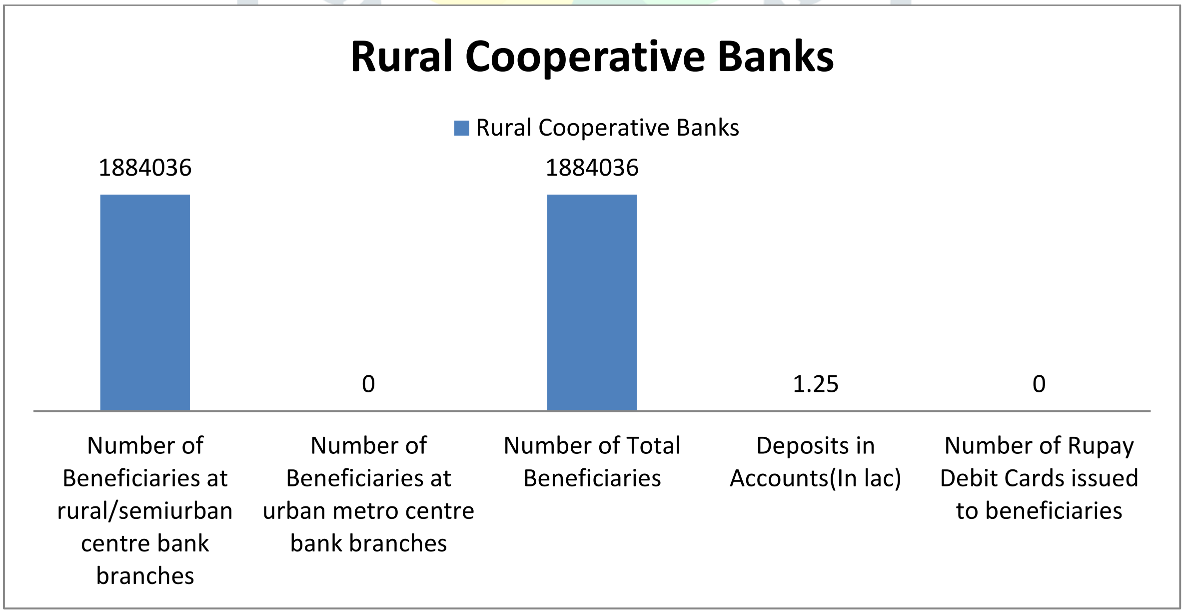
Limited Urban Presence: The lower number of beneficiaries in urban/metro centres reflects RRBs' strategic focus on rural financial inclusion.
This emphasizes the program's effectiveness in reaching underserved populations.

Fiure-4: Analysis of Private Sector Banks



4.4 Private Sector Banks' Leadership:
Private Sector Banks show a balanced distribution of beneficiaries between rural/semi-urban and urban/metro areas. This could be attributed to their strategic approach to tap into both markets.
Private Sector Banks demonstrate a balanced approach, serving beneficiaries in both urban as well as rural. Issuance of Rupay Debit Cards to 11.688 million beneficiaries shows that its contribution towards making India self-reliant is less in comparison of RRBs & PSBs.
This could be explored further to understand how private banks contribute to inclusive growth in diverse settings.
Despite a balanced presence, the overall number of beneficiaries is lower, possibly due to a more selective approach in choosing locations for PMJDY implementation.

Fiure-5: Analysis of Rural Cooperative Banks



4.5 Rural Cooperative Banks' Challenges:
As the name suggests, Rural Cooperative Banks primarily serve rural areas, as indicated by the absence of beneficiaries in urban/metro centres.

(i) **Limited presence in urban areas:** The limited presence of Rural Cooperative Banks in urban areas, along with negligible deposits and Rupay Debit Card issuance, suggests challenges in extending financial services beyond rural regions. Research could investigate into the barriers faced by these banks.

(ii) **Limited Impact in Urban Areas:** The absence of deposits and Rupay Debit Cards issued in urban areas suggests that Rural Cooperative Banks may face challenges in extending their services beyond rural regions.

4.6 Deposits as a Confidence Indicator of Deposit Discrepancies:

Public Sector Dominance: The high deposit amount in Public Sector Banks reflects the trust and confidence people place in these institutions.

4.7 Rural Focus of RRBs: Although RRBs have lower overall deposits, the amount is still substantial, considering their emphasis on rural areas.

Study could explore the factors influencing deposit trends and their implications for financial stability.

4.8 Issuance of Rupay/Debit Card as a Measure of Inclusion:

The issuance of Rupay Debit Cards is a critical metric for evaluating the success of cashless transactions. Analyzing the distribution patterns and factors influencing card adoption could provide insights into the evolving digital landscape.

(i) **Public Sector Leadership:** Public Sector Banks issue the majority of Rupay Debit Cards, showcasing their commitment to promoting cashless transactions and financial inclusion.

(ii) **Regional Rural Banks Contribution:** RRBs play a significant role in issuing Rupay Debit Cards, emphasizing the program's impact in rural areas.

4.9 Policy Implications: The findings from this report could inform policymakers about the efficacy of the PMJDY and guide future strategies for enhancing financial inclusion. Understanding the strengths and challenges of different bank categories can aid in refining policy interventions.

5. Comparative Analysis:

A comparative analysis of beneficiary counts, deposits, and Rupay Debit Card issuance across bank categories could yield nuanced insights into the varied approaches and effectiveness of different banks in implementing the Pradhan Mantri Jan Dhan Yojana (PMJDY).

6. Conclusion:

In summary, the PMJDY Bank Categorywise Report illustrates a distinctive landscape where the dominance of Public Sector Banks and the rural focus of Regional Rural Banks play pivotal roles. Private Sector Banks maintain a balanced approach, while Rural Cooperative Banks face challenges, particularly in urban areas. The issuance of Rupay Debit Cards serves as a key metric for evaluating the success of the financial inclusion initiative.

"Study warns that there is a pressing need to act to avoid a legacy of vulnerabilities while avoiding a broad tightening of financial inclusion."

To streamline the large number of beneficiaries in this direction, the emergence of Public Sector Banks & Regional Rural Banks highlights their crucial role in implementing government-driven financial inclusion initiatives.

This is a significant opportunity for banks to expand their retail lending.

Increased inclusion in the financial system would benefit the entire economy. All India level 58 per cent of credit supplied to the indebted households comes from formal sources and the rest i.e., 42 per cent is from informal sources.

The Census revealed that 41 per cent of households in the country and 46 per cent in rural areas are financially excluded.

As per Findex 2021, 22 per cent of Indians lack an account in any financial institution.

People still across the nation are relying on the traditional lending channels.

Regional Rural Banks can do better if the balanced strategy like Private Sector Banks is adopted.

The study further creates the scope to work on how the financial institutions are doing in the states and region and where they need to focus upon for gearing the speed of Indian economy for making India a $5 Trillion economy.

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