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EMPOWERING THE UNBANKED: THE JOURNEY OF FINANCIAL INCLUSION IN INDIA

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ABSTRACT

Financial inclusion plays a critical role in driving economic growth, reducing poverty, and empowering marginalized communities. In India, a significant portion of the population has historically remained unbanked, limiting access to essential financial services. The study highlights the journey of inclusion financial initiatives to support the unbanked community. It also investigates the key challenges of financial inclusion. The research is carried on a thorough literature, government reports and interactions with some of the underserved community. This study has identified limited access to financial services, insufficient financial education and literacy, cultural barriers and trust are key issues. Study would prove recommendations and roadmap to empower its unbanked population, foster entrepreneurship, improve social welfare, and drive sustainable development.
Key words: *Financial Inclusion, Financial literacy, Middle-income countries, Unbanked community.*

INTRODUCTION

Financial inclusion (FI) refers to the process that ensures all segments of society, particularly vulnerable groups such as the economically marginalised section of people have access to suitable bank offerings at affordable costs (C. Rangarajan, 2008). Its contribution is vital in driving economic growth and alleviating poverty. Penetration of formal financial services to all the people in the society can foster job creation, mitigate vulnerability to economic shocks, and enhance investments in the human capital. Without sufficient access to these services, achieving sustainable development goals becomes challenging [1][3]. On a macroeconomic level, increased inclusive finance contributes to sustainable and inclusive socio-economic growth for everyone [15][16]. It is a significant priority for fostering economic growth and societal development, as it helps to conduit the economic disparities between the wealthy and the poor. It ensures that individuals who have previously struggled to access organized financial systems can do so more easily (Akhil Damodaran, 2013). In India, approximately 1.4 billion adults remain inaccessible to formal banking services (Madhumita Paul, 2022)[4][5].

LITERATURE REVIEW

Demirguc-Kunt et al. (2018) assert that countries with affordable and appropriate services by financial institutions offer higher levels of FI and experience stronger economic growth and reduced income disparity. Shahul Hameedu (2014) Over a decade, banking sector experienced remarkable growth in volume and complexities. Despite the notable improvement in financial feasibility, profitability, and competitiveness, many banks could not reach to a significant portion of potential customers from economically marginalised sections from banking services. Bhoomika Garg (2014) investigated the link of FI on the rural development [2][7]. The study concluded that a notable number of farmers from small and marginal backgrounds, women and people dependent on their native occupations in unorganised sector including self-employed persons, artisans and pensioners are away from these services. Furthermore, the study by Sayantani Banerjee et al. (2014) highlights the crucial role of FI in promoting social development, emphasizing that factors such as unemployment and illiteracy could be detrimental to the effectiveness of these efforts[6][8].

Islam (2012) found that microfinance institutions have significantly contributed to the improvement of FI in India. Beck et al. (2007) provided macroeconomic evidence exhibit that countries with more spread of FI are positively correlated with economic growth and reduced income disparities. In their study, Maheswari and Revathy (2016) explored the obstacles to FI for women, concluding that while it is a vital initiative for poverty alleviation in India, the government must create a more conducive environment [9][13]. They emphasized the importance of understanding consumer needs and developing new business models to effectively reach underserved populations [17][18]. Komal Rathi (2023) highlighted that achieving FI for women largely relies on programs such as the 'Self-Help Group Bank Linkage Programs', 'Mahatma Gandhi National Rural Employment Guarantee Scheme' (MGNREGS), microcredit initiatives, direct benefit transfers, and community-based microfinance efforts [11][12]. Inder, Shivani (2024) explores the contribution of 'Central Bank Digital Currency' (CBDC) in enhancing FI in India. It discusses the opportunities and barriers CBDCs face and how block chain technology could facilitate it [19][20]. Reshma Kurussiveettil and Kanniammal Karuppanagounder (2023) studied the 'Pradhan Mantri Jan Dhan Yojana' (PMJDY), a government initiative focussed at FI, which provided access to basic banking services to millions. The paper emphasizes PMJDY's role in expanding financial services to marginalized populations in rural India [10].

OBJECTIVES OF THE STUDY

The main objective of the study is to understand the journey of financial inclusion initiatives of government that support the unbanked community. The study also investigates the key challenges of financial inclusion.

METHODOLOGY

Study is to investigates the journey of FI and identifies key challenges. The present study is based on thorough literature review, interaction with some of the underserved community, journals, research articles, and annual reports from Government of India.

FORMULATION OF HYPOTHESIS

H_{01}: Category wise beneficiaries do not differ significantly
H_{02}: Bank Sector wise beneficiaries do not differ significantly
H_{03}: FI in selected middle-Income countries do not differ significantly
H_{04}: Year wise FI in selected middle-income countries do not differ significantly

RESULTS AND DISCUSSION

Table: 1- 'Pradhan Mantri Jan – Dhan Yojana' (PMJDY) (All figures in crore). Bank category wise beneficiaries as on 16/10/204

Bank Category	No. of beneficiaries (rural and semi-urban bank branch centres)	No. of beneficiaries (urban metro bank branch centres)	No. of Female Beneficiaries (Rural and Urban Areas)	Total Number of Beneficiaries	Deposits in Accounts (In Crore)	No. of RuPay Debit Cards (Issued to Beneficiaries)
Public Sector Banks	26.30	15.62	23.11	41.92	188793.94	31.73
Regional Rural Banks	8.60	1.44	5.85	10.05	46519.90	3.57

Private Sector Banks	0.74	0.92	0.90	1.66	6938.91	1.37
Rural Cooperative Banks	0.19	0.00	0.10	0.19	0.01	0.00
Grand Total	**35.83**	**17.98**	**29.96**	**53.81**	**242252.77**	**36.68**

Source: https://pmjdy.gov.in/account.

Table: 2- Two-way ANOVA

Source of Variation	***SS***	***df***	***MS***	***F***	***P-value***	***F. crit***
Between bank sector wise beneficiaries	3869648924	3	1289882975	1.001764993	0.419123	3.287382105
Between category wise beneficiaries	12222815784	5	2444563157	1.898527108	0.154353	2.901294536
Error	19314155271	15	1287610351			
Total	35406619979	23				

Source: Compiled by the author using SPSS

p-Value 0.419 is more than the alpha value of 0.05. Hence, bank sector wise beneficiaries do not differ significantly. p-Value 0.154 is also greater than 0.05. This is also statistically insignificant. Hence, Category wise beneficiaries do not differ significantly.

Table:3- FI in Selected Middle-Income Countries

Nation	Percentage of individuals aged 15 and older who directly utilise financial services				Percentage of dormant accounts (2021)
	2011	**2014**	**2017**	**2021**	
Bangladesh	31.7	31	50.1	53	8
China	63.8	78.9	79.5	89	2
Malaysia	66.2	80.7	85.3	88	4
Nepal	25.3	33.8	45.4	54	26
Pakistan	10.3	13	21.3	21	8
Russian Federation	48.2	67.4	75.8	90	1
Sri Lanka	68.5	82.7	73.7	89	18
Ukraine	41.3	52.7	62.9	84	2
India	35.2	53.1	79.9	78	35
Average	**43.3889**	**54.8111**	**63.7667**	**71.7778**	**11.5556**

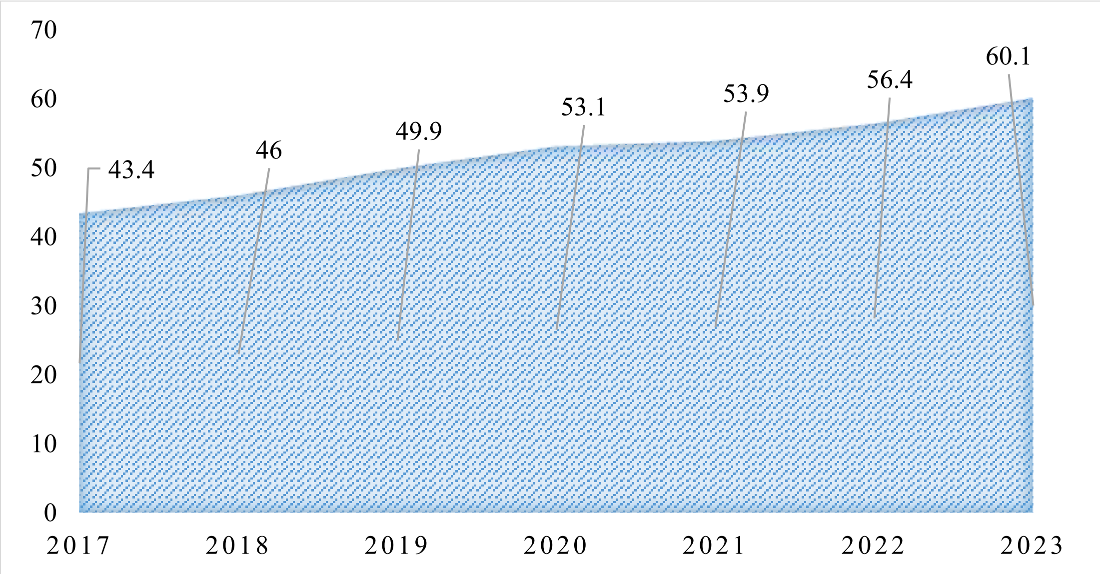
Source: Global Findex Database, World Bank

Table: 4- Two-way ANOVA

Source of Variation	***SS***	***df***	***MS***	***F***	***P-value***	***F.crit***
Between Select Countries	15231.74	8	1903.968	41.29138	3.49585	2.355081
Between years	4013.77	3	1337.923	29.01557	3.74438	3.008787
Error	1106.653	24	46.11053			
Total	20352.16	35				

Source: Compiled by the author using SPSS p-Value 3.495 is greater than the alpha value of 0.05. Hence, FI in select middle-income countries do not differ significantly. p-Value 3.74 is also greater than 0.05. This is also statistically insignificant. Hence, year wise FI in selected middle-income countries do not differ significantly.

Figure:1- FI index of India from financial year 2017 to 2023



Source: Statista

The figure shows that India's FI Index, as reported by the Reserve Bank of India (RBI), reached 60.1. This represents an increase from 43.4 in 2017, signifying a significant development in FI. FI Index reflects the level of utilisation of financial services, encompassing banking, insurance, investment, pension, and postal sectors.

Table:5- Summary of Hypothesis testing

Hypothesis	*Null Hypotheses*	*Result*
$H0_1$	Bank Sector wise beneficiaries do not differ significantly	Not significant
$H0_2$	Category wise beneficiaries do not differ significantly	Not significant
$H0_3$	FI in selected middle-income countries do not differ significantly	Not Significant
$H0_4$	Year wise FI in selected middle-income countries do not differ significantly	Not significant

DISCUSSION

Financial inclusion in India faces several hurdles, but targeted remedies offer promising solutions. Limited access to banking in rural and remote regions, along with the absence of digital infrastructure, restricts many individuals from engaging with financial services. Expanding both physical and digital banking infrastructure through partnerships between banks and fintech can bridge this gap. Low financial literacy further limits engagement with formal banking, especially among marginalized groups. To combat this, nationwide financial education programs can increase understanding of banking basics, savings, credit, and digital skills. Additionally, a significant digital divide persists, with many people lacking access to smartphones or the internet. Providing affordable smartphones, data services, and simplified digital platforms can help address this challenge.

Cultural barriers also prevent certain groups, especially women, from accessing financial services. Tailored programs aimed at women, supported by financial education and community networks, can empower them to participate more fully in the financial system. Furthermore, high transaction costs and fees deter low-income individuals from formal banking; low-cost, zero-balance accounts and affordable microfinance options can make services more accessible. Finally, to address trust issues with formal banks, engaging community-based agents to represent banks locally can build credibility and provide personalized assistance. With these combined efforts, India can make strides toward a more inclusive and empowered financial ecosystem.

SCOPE FOR FURTHER RESEARCH

The present study is an effort to understand the overall journey of FI, government initiatives and key issues. Further studies can conduct on the long-term impact of various such initiatives on the socio-economic status of marginalized communities. Study can also elaborate on the impact of emerging technologies in FI, such as block chain and artificial intelligence.

CONCLUSION

Financial inclusion is not only an economic imperative but also a moral obligation essential for fostering entrepreneurship, empowering marginalized communities, and achieving sustainable development. This study has identified key challenges to FI, including limited access to financial services, insufficient financial education and literacy, cultural barriers and trust. Overcoming these barriers requires collaboration among various stakeholders. By promoting digital financial services, improving financial literacy, advocating for stable financial regulations, and leveraging alternative data sources, we can cultivate a more inclusive financial ecosystem. Working together, we can empower individuals and businesses to unlock their potential for economic growth and prosperity.

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