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Challenges Of Financial Inclusivity In India

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Abstract:
Financial inclusion has emerged as the new paradigm of sustainable economic growth . This is especially significant to economies that are marked by deep socio-economic fault lines that are increasingly vulnerable to economic shocks and climate change related risks and fragile social, institutional, and regulatory structures. This paper examines the challenges of financial inclusivity in India, which are the key to understanding the increasing socio-economic disparity in India despites its GDP figures and the efforts of the Government.
Keywords: *GDP, economic growth, financial inclusivity, sustainable development, economic growth, poverty, disparity, banking, investment, microfinance, loans, credit*

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I. Methodology:

This research employs a qualitative approach, using secondary data and reports to investigate the principal challenges in financial inclusivity in India. Ethical considerations are observed, including proper citation of sources and authors. Any limitations in the secondary data and reports, such as potential biases or gaps, are acknowledged. The hypothesis of the study was: there are significant challenges in financial inclusion in India that need urgent redressal.

II. Introduction:

India surpassed the UK as the fifth largest economy last year and according to analysts at Morgan Stanley, it's on track to overtake Japan and Germany and hit the third spot by 2027 ***(https://www.bbc.com).*** However, despite being one of the fastest growing economies of the world, inequality has been rising sharply for the last three decades. While the rich are getting richer at a much faster pace while the poor are still struggling to earn a minimum wage and access quality education and healthcare services, which continue to suffer from chronic under-investment. These widening gaps and rising inequalities affect women and children the most ***(https://www.reuters.com)***. The top 10% of the Indian population holds 77% of the total national wealth. 73% of the wealth generated in 2017 went to the richest 1%, while 670 million Indians who comprise the poorest half of the population saw only a 1% increase in their wealth. While another report indicates that it would take 941 years for a minimum wage worker in rural India to earn what the top paid executive at a leading Indian garment company earns in a year (https://www.oxfam.org).Even for a developing economy, income inequality in India is too extreme, according to a March report from the World Inequality Lab ***(Nitin Kumar Bharti, Lucas Chancel, Thomas Piketty, Anmol Somanchi – 2024).***

This reality and India's commitment to UN SDG goals, brings financial inclusion to the centre stage. As an enabler of at least seven sustainable development goals (SDGs), financial inclusion is a critical driver for achieving poverty alleviation, gender empowerment, and sustainable, inclusive economic development ***(Home-Sustainable Development Goals, 2018).*** Financial inclusion can be defined as a process that eliminates obstacles and overcomes the disadvantages of some social groups and individuals with poor and deprived problems for low cost, reasonable and secure formal financial services such as credit, deposits, insurance and payments when necessary ***(Mohan 2006; Rangarajan, 2008).*** It's also defined as "the process of ensuring access to financial services, timely and adequate credit for vulnerable groups such as weaker sections and low-income groups at an affordable cost".***(Committee on Financial Inclusion - Chairman: Dr C Rangarajan, RBI, 2008***). The Committee on Medium-Term Path to Financial Inclusion (***Chairman: Shri Deepak Mohanty, RBI, 2015)*** has set the vision for financial inclusion as, "convenient access to a basket of basic formal financial products and services that should include savings, remittance, credit, government-supported insurance and pension products to small and marginal farmers and low income households at reasonable cost with adequate protection progressively supplemented by social cash transfers, besides increasing the access of small and marginal enterprises to formal finance with a greater reliance on technology to cut costs and improve service delivery.

Financial inclusion is increasingly being recognized as a key driver of economic growth and poverty alleviation the world over. Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investments in human capital. Thus, at a macro level, greater financial inclusion supports

sustainable and inclusive socio-economic growth for all. In this we cannot ignore the financial inclusion of women as it is particularly important for gender equality and women's economic empowerment. An inclusive financial system is significant as it supports stability, integrity and equitable growth***(National Strategy for Financial Inclusion 2019-2024).***

The Government of India has introduced several schemes to promote financial inclusion. The most significant being the Pradhan Mantri Jan Dhan Yojana (PMJDY), Atal Pension Yojana (APY), Pradhan Mantri Vaya Vandana Yojana (PMVVY), Stand Up India Scheme, Pradhan Mantri Mudra Yojana (PMMY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Sukanya Samriddhi Yojana, Jeevan Suraksha Bandhan Yojana and the Varishtha Pension Bima Yojana (VPBY). However, despite all of these, the economic inequality in the country is the highest in its history with the top 1% of the population holding a record-high share of national income, considered even higher than during the British colonial era; this means that India's income inequality is currently worse than at any point in its history. These statistics demand a more detailed study on the bottlenecks to these schemes.

This paper examines the principal challenges to financial inclusion in India with the objective of getting a better understanding on the areas that need to be worked on to ensure a more equitable growth.

III. Principal Challenges In Financial Inclusivity:

Widespread financial illiteracy:

An essential indicator of people's ability to make financial decisions is their level of financial literacy. According to Organization for Economic Cooperation and Development ***(OECD)*** "financial literacy is a combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual well-being". It refers not only to the knowledge and understanding of financial concepts and risks but also to the skills, motivation, and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life. Thus, financial literacy refers to both knowledge and financial behaviour ***(Lusardi, A.2019)***. Financial literacy is treated as having the proper knowledge of making the right decision in choosing financial products and services ***(Fernandes et al. 2014)***. Understanding financial language is crucial to improve financial education. ***Worthington (2016)*** highlighted financial literacy as the ability to decision-making in all aspects of people's budgeting, saving, and spending matters.

While the financial sector has expanded its bouquet of financial instruments, lack of proper understanding is increasing defaulters or is putting off those who find them complicated and suspicious. This is more to do with ignorance and lack of financial literacy. ***Wang et al. (2020)*** identified that poor knowledge regarding financial issues increases the chances of making unsecured P2P loans and personal loans. Financial literacy has a direct bearing on the savings, investment behaviour and debt management and borrowing practices. Empirically, financially savvy people are more likely to accumulate wealth ***(Lusardi and Mitchell, 2014)***. While several studies have documented poor debt behaviour and its link to financial literacy. ***Moore (2003)*** reported that the least financially literate are also more likely to have costly mortgages. Lusardi ***and Tufano (2015)*** showed that the least financially savvy incurred high transaction costs, paying higher fees and using high-cost borrowing methods. In their study, the less knowledgeable also reported excessive debt loads and an inability to judge their debt positions.

The financial literacy rate is lower in Indian adults than in other developed nations including USA, UK, and Singapore. Surveys reveal that only 27 per cent of India's population is financially literate. Additionally, only 16.7 per cent of Indian students have a basic understanding of finance and money management ***(https://www.business-standard.com***). According to the National Centre for Financial Education ***(NCFE)***, 21% of women in India are financially literate, compared to 29% of men. This gender gap in financial literacy is a significant barrier to women's economic empowerment, thus women are not able to contribute to their family's overall health and prosperity despite their potential. The biggest challenge for our nation is women's empowerment which can only be attainable when they will be educated and financially literate and independent ***(Singh & Kumar, 2017)***

Financial literacy not only improves people's lives but also contributes to a country's economic growth and development ***(Jariwala, 2015; Mitchell, O. S., & Lusardi, A. 2015.)***. So, when we study these numbers against the backdrop of India being the fastest-growing economy for the next decade, we can evaluate the missed opportunities both, for the people of India themselves and for the nation as a whole as the majority of its citizens are unable to contribute more effectively to India's growth numbers. For instance, the total amount of unclaimed amounts of policyholders in public and private sector insurance companies was at Rs 24,586 crore at the end of December 2020. The primary reason for this unclaimed money is a lack of nominees, non-submission of full details when you bought the policy, etc. ***(https://www.livemint.com).***

Individuals with higher levels of financial literacy are also more likely to renegotiate their mortgages and employ lower cost borrowing alternatives ***(Lusardi, 2019).***Individuals and businesses often need loans to meet essential expenditure and working capital requirements and tackle unforeseen contingencies. Usually, the type of loan, sources and the terms and conditions involving those loans will correspond to the level of financial knowledge of the borrowers and if that knowledge is inadequate, it can either prevent them from taking a timely loan or in understanding the repayment capacity and terms and thus leading to greater defaults which harms institutions.

Kou et al. (2021) identified access to finance as a challenge; thereby, financial literacy is treated as one of the influential financial inclusion components by different national and international organisations. ***Hussain et al. (2018)*** examined the relationship between education level and business owners' engagement with financial services. They identified that financial literacy positively influenced a firm's access to finance and a firm's growth.

Lack of financial literacy among the youth is even more risky as Fintech makes financial options available to them more easily and if they don't understand these in depth, they can make rash decisions and indulge in financially risky behaviour, which can cause financial troubles very early in life. New and rapidly expanding mobile payment options have made transactions easier, quicker, and more convenient. Most mobile payment users display lower levels of financial literacy ***(Lusardi, de Bassa Scheresberg, and Avery, 2018)*** and exhibit expensive financial behaviour which is challenging. It is becoming increasingly clear that Fintech is not a substitute for financial literacy.

Systemic weaknesses and deep-rooted bias:

Data from the All-India Debt and Investment Survey (AIDIS) reveals that there is significant disparity in both the access to as well as the use of financial services by men and women in India. It is evident that women face several barriers that hinder their access to and use of financial services and are more likely to be excluded from the financial sector. These include political, economic and educational factors ***(CFI Education Inc., 2023).***

Despite the fanfare surrounding the Pradhan Mantri Jan Dhan Yojana ***(PMJDY)***, which was announced in 2014, that led to the opening of a record 36 crore bank accounts, with over 50 percent of these account holders being women, the gender gap continued to exist. According to the Findex survey 2021, of the women-owned bank accounts in India, more than 32 percent are inactive. The gender gap in account inactivity is highest in the country at 12 percentage points ***(https://www.business-standard.com).*** Of the women who have a bank account, less than one-fifth save formally with the bank; for many, usage is limited to withdrawal for emergencies, withdrawing salary, or availing government benefits. 20% of the women in India still do have bank accounts. Women continue to save in informal systems such as community-based savings groups ***(Ghosh, Saibal & Vinod, Dharmarajan. (2017).***

One of the primary barriers to active usage of formal financial services is the lack of financial literacy. Women in rural areas have limited or no access to information on how to engage with the continuously evolving formal financial space, especially when it is online and digital. They also have limited literacy levels, constrained mobility and access to public spaces, and are intimidated by the male dominated physical banking space and the English dominated online financial interfaces that intimidate women specially from the rural areas. Meanwhile, the report also notes that only one in every four employees working in the banks is a female, as the total number of women working in banks stood at 441,000 in comparison to 1.32 million male employees ***(https://idronline.org)***. The prohibitive nature of most financial services; lack of necessary documentation; and distrust of the financial system are increasingly keeping women out of the formal institutions and more inclined to local sources they can trust and who speak their language.

Studies have revealed that as compared to households headed by male members, households headed by female members are 8% less likely to access formal finance and 6% more likely to access informal finance. In terms of usage of financial services, female-headed households are 20% less likely to acquire cash loans as compared to male-headed households (***Ghosh, Saibal & Vinod, Dharmarajan. (2017)***.This could possibly be a result of lower financial literacy rates amongst female-headed households, which are thus more likely to be influenced by false information and unethical marketing tactics by informal lenders. This lack of financial literacy could also increase their hesitation in applying for loans to formal credit institutions.

One of the reasons that have come out starkly in most studies is that since credit assessment is highly dependent on human judgment and the credit officers are given maximum level of power for interventions in credit decisions, the inherent social cultural bias towards women influence their decision making, putting women at a disadvantage. This adds to the already exasperating challenges that are faced by the women borrowers. The lack of collateral due to limited access to assets and property impedes their ability to avail loans. Even as the overall shares of women and men in total bank credit have increased over the past decade, the rise in women's share has been far slower than men's; it also remains low in absolute terms. In 2017, women accounted for only 7 percent of total bank credit compared to 30 percent for men **(https://www.orfonline.org).** Women entrepreneurs often face stricter lending criteria, more scrutiny, and difficulty accessing larger loan amounts

compared to men, even when presenting similar financial profiles ***(Bellucci, Andrea & Borisov, Alexander & Zazzaro, Alberto. (2010)***. Moreover, Data from the Global Findex Database 2021 shows that women and the poor are more likely to lack proof of identity or a mobile phone, live far from a bank branch, and need support to open and effectively use a bank account***(https://thedocs.worldbank.org).)***

Caste Bais is another ill that continues to impact financial inclusivity in India. The consistent point that emerged is that most Dalit businesses find it tough to secure bank credit and stay out of formal banking. Consequently, an overwhelming majority go to private lenders who charge huge interest. It is no wonder that not a single Dalit entrepreneur is able to enter India's billionaire club. Financial institutions see Dalits with suspicion, undervaluing their business acumen ***(Chandra Bhan Prasad in TOI Editorials 2019)***. The presence of a higher concentration of wealth with upper caste and decreasing odds of participation in higher profile occupations, returns on education and capital assets as we move down the caste hierarchy, while a substantial increase in the level of poverty, was termed as 'graded inequality' by ***S. Thorat and Madheswaran (2018)***. Exclusion from formal financial services forces Dalits to depend primarily on informal financial sources for borrowing—which leads to financial misfortune and further dragging them into a vicious cycle of poverty. Studies show that there are substantial credit differences between the general caste and other lower castes. A portion of the credit differences between general caste and other lower castes (except SC) remains unexplained. Hence, it can be argued that the disparities between the loans granted to general caste and other lower castes in India are not only because lower castes possess less human and physical capital than general caste, but also because these groups may be facing extensive and persistent discrimination in the credit sector. We find that banks are more likely to discriminate against lower castes than the money lenders ***(Athaide, M., & Pradhan, H. K. (2020) Matto, M., & Niskanen, M. (2019).***

The divide also extends between the rural and urban India. In a country where 23.5 percent of rural households have no literate adult above the age of 25 (one of the categories of deprivation measured by the **Socio-Economic Caste Census 2011**, and of the 64 percent literate rural Indians, more than a fifth have not even completed primary school, it is not only important—but essential—to have a systematic platform for financial education. The inability to understand and engage conveniently with the formal financial space has huge implications on the financial behaviour of these households. This is further exacerbated by language, connectivity, and socio-cultural barriers. Even though the Financial Literacy and Counselling Centres ***(FLCCs)*** were set up by lead banks, they have not been very effective, especially given their camp-based approach to financial education and limited outreach ***(Reserve Bank of India - Reports).***

Religious bias by financial institutions is often swept under the carpet and not spoken about openly, is an evolving area of research. Existing studies suggest a significant disparity in both the access to as well as the use of finance by religion. On average, Muslim households are 17% less likely to own a bank account, after controlling for other relevant household and state-level characteristics. Similarly, Muslim households are 8% less likely to use bank account ***(Saibal Ghosh, 2020)***. The problem also lies in the fact that even after over 75 years of Independence, the financial institutions have not taken proactive steps to address their concerns and to bring them into mainstream banking.

Access to banking infrastructure:

India's vast and diverse geography poses significant challenges for delivering financial services to remote areas, where a substantial portion of the rural population lacks access to smartphones and internet connectivity. Inadequate road connectivity and unreliable electricity supply, in rural areas hinder efficient banking penetration ***(https://ascentgroupindia.com 2024)***. The internet penetration rate in India rose over 52 percent in 2024 ***(https://www.statista.com),*** from about 14 percent in 2014 which is still below the global average of 66%.This digital divide limits the reach and effectiveness of digital financial services. Scarcity of branches and ATMs hinders easy access to financial services in inaccessible rural areas further hinder financial inclusivity.

Lack of Tailored Financial Products:

The absence of financial products suited to the unique needs of rural populations, such as farmers or small traders, limits their engagement with formal banking. Increased paperwork also makes it difficult for the lower strata to avail credit and work with mainstream banking. In its 2019 report, the ***Reserve Bank's Internal Working Group to Review Agricultural Credit*** estimated that despite numerous existing initiatives, at most, only 40 per cent of India's small and marginal farmers are covered by formal credit. The situation only worsened during the pandemic and after. Small and marginal farmers and landless cultivators continue to be largely dependent on informal sources of rural credit.

The banks need to come up with small instant loans with lesser paperwork to encourage farmers to leave the village money lenders and enter the formal economy. Even though the government has taken some initiatives they have not yielded results due to excess red tape and paperwork. NPAs have always been cited as the primary

reason why the banks are reluctant to service this community, but bringing in flexibility in repayments would have helped.

Let's take the example of the Kisan Credit Cards (KCCs). The RBI's Internal Working Group estimated that as of 2019, only around 45 per cent of all Indian farmers possessed an operative KCC and that given the existence of multiple accounts per farmer, the percentage is likely to be even lower. Indeed, Nabard's own ***NAFIS Survey 2016-17***, reported that only 10.5 per cent of agricultural households were found to have a valid KCC. Instead of utilising the PM-KISAN platform to further front-end and disburse cash transfers (it is after all a DBT scheme) to farmers that need it more, the database is now to be used to extend coverage of credit under KCCs. But the PM-KISAN database is itself criticised out landless farmers, tenant farmers and sharecroppers. In addition, now livestock farmers and fishermen are also to be covered by KCCs, while the method for their identification is unclear ***(https://theprint.in).*** More generally, livestock and allied activities remain woefully uncovered by formal agricultural credit, of which 90 per cent goes towards crop loans. Once again, while the intention to include livestock and fisheries in this new infusion of working capital is laudable, given that they are currently almost completely out of the purview of existing channels makes it difficult to comprehend how this can count as relief ***(https://www.downtoearth.org.in).***

Banks can take a cue from microfinance agencies that offer short-term loans to farmers with flexible repayment windows. Also, they have actively captured many rural markets with beneficial small-group loans. Due to their 24×7 customer support and seamless loan processing, these companies are gradually gaining the trust of farming families ***(https://ascentgroupindia.com).*** Offering products that offer seasonal repayment options may also be very useful.

Similarly small size and flexible financial products can also be arranged for women, senior citizens and children so that all financial strata are incentivised to join the formal banking systems/economy. These can give slightly higher rate of interest to encourage saving and incentivise them to bank.

Digital Divide

As more and more financial products are becoming interconnected, the digital divide is hampering financial inclusion. In India, leveraging digital technologies to bring unbanked populations into the banking segment has been identified as a key factor in achieving an inclusive society ***(Datta, D. 2023, Malladi, Soni, & Srinivasan, 2021)***. Furthermore, leveraging blockchain technology can revolutionize the financial landscape by enabling seamless peer-to-peer transactions and fostering a decentralized, trust-based financial system with enhanced security and efficiency ***(Singh, K P, Benakatti, & Srivatsa, 2023)***.

However, access to these is not universally available across the country due to lack of supportive infra structure and stable internet connectivity. It is widely accepted that the internet is the most important driver of finance but lack of it can lead to financial exclusion ***(https://ascentgroupindia.com, Singh, Vishal and Pushkar, Bijendra 2019)***. Although India climbed up eleven slots to be among Top 50 Countries in Network Readiness Index 2024, the stability of the connectivity and its speed is still not universally available. Despite progress, Internet connectivity is still a major barrier in many rural areas**(https://aisect.org)**. This restricts access to online banking, limiting the potential of full digital banking and requiring physical banking which still runs short of universal and convenient coverage.

Too much documentation and red tape:

The inflexibility with documentation shown by financial institutions in the country also challenges inclusivity. "The excluded may live in remote areas or may belong to communities or segments of society that undertake economic activity informally – they do not maintain records or have signed contracts or documentation. They often do not own property or have regular established sources of income. As a result, a banker, especially if as is typical, he is not from the local region, will have difficulty getting sufficient information to offer financial products. Finally, given that the excluded do not have formal documents, bank managers in large banks with bureaucratic centralised procedures find it hard to provide effective service – how does one convey to head office the rationale for a loan to an intelligent enthusiastic tribal who wants to set up a small shop, but who has no formal education or track record?" – ***(Raghuram G Rajan,2016).*** In its 2019 report, the ***Reserve Bank's Internal Working Group to Review Agricultural Credit*** estimated that despite numerous existing initiatives, at most, only 40 per cent of India's small and marginal farmers are covered by formal credit. The situation only worsened during the pandemic and after. Small and marginal farmers and landless cultivators continue to be largely dependent on informal sources of rural credit. The banks need to come up with small instant loans with lesser paperwork to encourage farmers to leave the village money lenders and enter the formal economy. Even though the government has taken some initiatives they have not yielded results due to excess red tape and paperwork ***(https://www.nabard.org)***. Individuals without a credit history may also find it difficult to qualify for loans or other financial products. This is because banks and other financial institutions use credit history to assess an individual's risk of defaulting on a loan ***(Pal, Rama & Pal, Rupayan. (2012)***. Moreover, Rigorous Know Your

Customer (KYC) requirements can be a significant hurdle for individuals without formal identification or address proof, which excludes a large majority of Indians ***(GSMA. (2019).***

Lack of trust:

As many as 36,075 frauds were reported in banks in the financial year 2023-24 (FY24), growing nearly 166 per cent from the 13,564 cases reported in FY23. The amount involved in the bank frauds decreased 46.7 percent year-on-year (Y-o-Y) in FY according to the ***Reserve Bank of India's*** (RBI) annual report 2024 ***(https://www.business-standard.com)***. The majority of fraud cases have occurred within the realm of digital payments (specifically involving cards and internet transactions) both in terms of frequency and monetary value.

Although India's first-world digital infrastructure and financial inclusion, which has brought access to digital banking, payments, health, and credit services to almost 500 million people, are widely acknowledged, India now ranks among the largest victims and perpetrators of cyber fraud worldwide. India ranked number 10 in the 'World Cybercrime Index' that ranks roughly 100 countries and identifies key hotspots according to various categories of cybercrime, including ransomware, credit card theft and fraud (https:// economictimes. indiatimes. com). In a country where 60% of the population lives on less than $3 a day, any scale of cyber fraud poses life-changing consequences for the victims ***(https://www.livemint.com)***. This scam exploits individuals, often from low-income backgrounds or facing financial hardships, by luring them into unwittingly facilitating money laundering activities. The consequences are devastating, with victims facing not only financial losses but also blocked accounts, legal actions, and a damaged credit history, leading to financial exclusion. Victims lose money, digital platforms lose customers, regulators increase compliance, but everyone loses trust. Banks, lenders, and digital platforms, burdened with increasing compliance and fraud detection requirements, become wary of onboarding new customers, hindering inclusion efforts, and pushing vulnerable populations back towards informal channels. Trust is the most cited motivator for the adoption of digital financial services or DFS ***(Prajapati, Kajol & Singh, Ranjit & Paul, Justin. (2022)***. Contatn buzz around fraud, keep customers from the low-income group and other vulnerable segment of society like veterans away from the formal infra structure, leading to a loss of business and investor confidence.

By adding Bundled products and services with the bank account which include insurance programs, such as Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) with accounts without educating the end consumer, the unexplained deductions from their bank accounts erodes their trust in the digital financial services ecosystem. Even though Banks advertise free or low-cost savings accounts, hidden maintenance fees triggered by factors, such as minimum balance requirements, transaction limits, or inactivity ***(https://www.microsave.net.)*** put off the low-income strata which constitutes the majority of India's population. Add to this the ATM fees and added cost of credit cards and the burden becomes tough. All major Indian banks also charge an annual fee to use debit or ATM cards. Yet, customers are not always informed upfront about subscription fees and other processing charges. While the bank websites include information about ATM withdrawal charges in their FAQs, customers often lack a detailed explanation of these terms and conditions, especially when they open their accounts online. This adds to the mistrust. The extensive documentation and the Fine print and lengthy terms and conditions that contain hidden pricing, makes an average borrower wary and reluctant to proceed (Forbes Advisor). The trend where credit card companies offer attractive introductory rates, and then increasing them significantly after the introductory period, is another impediment to building trust. Similarly, loans may have hidden fees for early repayment or penalties for late payments. Around two-thirds of banking customers do not fully understand their DFS's terms and conditions. Trust is one of the most important constructs in the financial context ***(Devlin et al., 2015)***. This occurs because consumers generally lack familiarity with financial services and because many offers are directly linked to promises about the future ***(Moin, S., Devlin, J.F. and McKechnie, S. (2015).*** Banks need to educate the borrower in simpler terms to build trust. Most banks depend on agents and company representatives to push credit cards to customers that initially have zero fees. However, they later charge customers subscription fees. These agents do not provide customers with the important terms and conditions transparently, as most of the information centers around loyalty points and benefits ***(Kamini Mehta for TOI 2019)***. This lack of information can have serious implications. For instance, if an individual misses the minimum payment due date for a credit card, they may face repercussions depending on the duration of the missed payment. These repercussions could range from interest on the overdue balance and loss of the grace period to a drop in their credit score, again eroding trust (***Kirti Jha, MintGenie Team, 2023)***.

High cost of financial services

According to the ***RBI, 2006a***, "Financial inclusion has been defined as the "provision of affordable financial services" to those who have been left unattended or under-attended by formal agencies of the financial system. These financial services include "payments and remittance facilities, savings, loan and insurance services" In Indian context, ***Rangarajan Committee (Report of the Committee on Financial Inclusion in India (2008))*** defines it as: "Financial inclusion may be defined as the process of ensuring access to financial services

and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

Inflation has not spared the banking sector either. As Banks go from charging for looking up their accounts (savings or current) on the Internet as also for mobile banking, the cost to the end consumer is escalating. While some banks levy an annual fee on the debit card use, a few have increased charges for depositing cash and issue of demand draft. Without doubt, banking has now become a costly affair. Caught between the high cost of operations and low-income generation, banks say they have no option. The hike in charges is expected to cut operation costs and bolster their bottom line. With Banks hiking transactions fees, it is becoming an added burden for the customers already battling inflation on several fronts ***(https://www.thehindubusinessline.com).***

Credit for an average Indian is also an expensive proposition. Majority of the Indian population is not able to mortgage or provide paperwork that banks require. This is where the Microfinancing Institutions were expected to be the game changers. However, compared to commercial banks (8-12%), MFIs charge a significantly high-interest rate (12-30%). The Reserve Bank of India (RBI) recently announced the removal of the 26% interest cap for MFI loans (***The Economic Times, https://www.livemint.com 2022)***. This has enriched the industry's players while worsening the situation for customers. Riddled by problems of over-indebtedness, over reliance on commercial banks for their own funding, lack of awareness in the end consumer , the MFIs are forced to pass the cost to the end consumer. Banks account for over 80% of their funds. The majority of these are private banks that charge high-interest rates and have shorter lending terms. Lack of a structured risk management framework and repeated borrowings by most clients have only compounded their problems. .This aspect makes it difficult for villagers to work with MFIs to address their financial needs, but it also makes them financially excluded. In addition, MFIs have the difficult challenge of educating the public and gaining their trust before selling their products. Thus, due to a lack of information, microfinance institutions struggle to make their businesses more financially sustainable. Many MFIs use the SHG or Joint Liability Group (JLG) model. Unfortunately, these models are chosen at random irrespective of the situation, increasing the possibility of the weaker sections taking on more debt than they can handle, which is irreversible and finally leads to a crisis situation for the borrower and pushed them into exclusion ***(https://finezza.in).***

Muhammad Yunus, the economist who pioneered the practice by lending small amounts to basket weavers in Bangladesh and won a Nobel Peace Prize for it in 2006 criticized the direction the idea is taking. "We created microcredit to fight the loan sharks; we didn't create microcredit to encourage new loan sharks ."Microcredit should be seen as an opportunity to help people get out of poverty in a business way, but not as an opportunity to make money out of poor people."

IV. Conclusion

According to the World Bank, 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. Being able to have access to a transaction account is a first step toward broader financial inclusion since a transaction account allows people to store money and send and receive payments ***(https://www.worldbank.org)***. The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity, identifying it as an enabler for 7 of the 17 Sustainable Development Goals. These goals are a blueprint for achieving a more sustainable future, since they address key areas of concern like that of inequality, health, climate action, and peace. According to ***Ozili (2018),*** financial inclusivity is one of the key enablers of these goals. Thus, it has become the key consideration for an evaluative measurement of the growth and prosperity of a society and has emerged as one of the fundamentals of policy-making in many developing countries, including India ***(Dikshit and Pandey 2021,Pandey et al. (2022)*** as it is strongly related to economic growth and provides for the impoverished section to be better positioned to achieve its economic aspirations. Without sufficient access to formal financial services, individuals and businesses often depend on informal financial sources, which can expose the poor to financial instability and hinder economic progress ***(https://slbcne.nic.in)***.

India's more deliberate push on financial inclusion with initiatives like the Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Awas Yojna, etc have been encouraging and have shown positive results. The Reserve Bank of India's FI-Index ***(Financial Inclusion Index)***, which captures the extent of financial inclusion across the country, rose to 64.2 in March 2024 with growth in all parameters. The tool, which is constructed by the RBI to capture the extent of financial inclusion across the country, has shown significant improvements over the years growing steadily at a CAGR of 5.75% since 2017 when the index was at 43.4. RBI data shows number of banking outlets in villages increased from 67,694 as of March 2010 to 16.48 lakh in December 2023. There has also been an increase in the number of Basic Savings Bank Deposit Accounts (BSBDA) from 7.3 crore to 70 crore in the last 13 years ***(https://www.thehindubusinessline.com, Inclusive Financial report https://www.nabard.org).***

India's journey towards financial inclusion is a testament to the power of innovation and accessibility. The country's Unified Payments Interface (UPI) system has revolutionised financial transactions, facilitating an

extraordinary 13116.5 crore transactions in FY24, amounting to ₹199.9 lakh crore. This surge in digital payments highlights the growing trust and reliance on digital platforms for financial activities across urban and rural areas alike (***Dharmender Jhamb, Grant Thornton Bharat 2024)***. UPI has been the game-changer with number of UPI transactions rising over 10x from FY20 to FY24. “Digital payments are the foundation and key enabler to access and usage across products. The kind of progress we have seen in digital payments undoubtedly shapes the FI-Index,” ***Sugandh Saxena***, CEO, Fintech Association for Consumer Empowerment (FACE), said.

Furthermore, by encouraging loans for the MSMEs without collaterals, reducing turnover thresholds for financing platforms, expanding the ATM and branch networks, increasing the Mudra loan limit to ₹20 lakh for successful Tarun category borrowers reflects a commitment of the GOI to supporting small entrepreneurs and facilitating business expansion. The newly launched PM Janjatiya Unnat Gram Abhiyan signifies a significant governmental effort to address the needs of tribal communities by targeting saturation coverage in 63,000 villages, impacting 5 crore individuals. This ambitious program aims to significantly improve socio-economic conditions, driving inclusive growth and development through broad-based intervention strategies ***(https://timesofindia.indiatimes.com)***.

However, as of 2024, India still lagged most other emerging economies and global peers when it comes to inclusion parameters even though there is an improvement from the 2021 World Bank data according to which 78 per cent of India’s adult population owned bank accounts in their name compared to 84 per cent in Brazil, 89 per cent in China, 90 per cent in Russia and 85 per cent in South Africa. Despite opening of bank accounts under the widely publicised Pradhan Mantri Jan Dhan Yojana, the ground realities are different. Random enforcement of KYC rules is denying the poor their own money and dignity. Banks are freezing accounts without warning, forcing people to make costly trips to distant branches and pay bribes just to access pensions and wages ***(Jean Drèze,Vipul Paikra,Natasha Trivedi 2024)***. Another important segment for financial inclusion in a country is the insurance sector. For measuring the financial inclusion through insurance service, two indicators are used – Insurance density and Insurance penetration. These two measures are needed to calculate for both life and non-life insurance separately Insurance density is the ratio of total insurance premium to the whole population of the country ***(T.G, Saji. (2019)***. The introduction of PM-JAY coincided with increased public health insurance coverage and decreased inequality in coverage. But the gains cannot all be plausibly attributed to PM-JAY, and they are insufficient to reach the goal of universal coverage of the poor.

However, the challenges remain. With no significant efforts at a large scale to address the issue of financial illiteracy, large swathes of the Indian population continue to stay excluded from the financial mainstream. The situation is exacerbated by a lack of cognizance and trust issues in digital payments with an increasing number of lower income Indians and other vulnerable groups becoming less interested in participating in the digital economy as the number of cyber security risks grows. Despite the Consumer Protection Act, 2019, Banking Ombudsman Scheme and numerous RBI Guidelines, the consumers don’t feel sufficiently covered and have very little faith in the redressal agencies preferring to not risk their finances .

Plagued by limited accomplishment in bringing its underprivileged into utilizing banks’ services. India, with a populace of 1.3 billion, has an enormous number of individuals who are still out of the formal financial net or stay out of it due to its cost and inconvenience. India is learning that Incorporation doesn't only mean providing an individual easy access to a bank account, it calls for every citizen to have full access to affordable and useful financial services and products that guarantee admittance to reasonable and valuable monetary administrations to meet their requirements regarding instalments, exchanges, wealth management, and so on. Doing away with high banking costs, bringing more transparency in banking charges and costs involved in electronic transactions like NEFT, RTGS, mobile wallets etc and the *minimum balance requirement on accounts* that are hard to maintain for individuals on low pay could be the game changer to drive financial inclusion in true spirit. The demand of different document proofs is another barrier to universal access to formal financial services. The impoverished frequently lack documentation such as an income certificate, a birth certificate, and proof of address etc. The highly limited structure of the banking correspondent (BC) model is another impediment to the successful implementation of a financial inclusion plan ***(https://www.tcs.com).***

The traditional banking system in India is struggling to meet the needs of under-served communities, including women. Fintech solutions can bridge this gap and expand financial inclusion if pursued carefully and with the right precautions. In fact, Technology-based banking has served as the two pillars around which the growth of modern banking has been built ***(Li et al. 2021)*** and have played a significant role in overcoming the shortcoming of the Traditional financial institutions in India, in serving a large segment of the population, particularly in rural areas due to their limited physical presence.

Fintech also help overcome bias which limits access in traditional banking. Fintech leverages technology and makes financial services more accessible, affordable, and user-friendly, thereby helping to empower women and other underserved groups ***(Morshadul Hasan, Ariful Hoque, Mohammad Zoynul Abedin, Dominic Gasbarro, 2024)***

They have the added advantage of unbundling services allowing customers to choose the services that they need and want, to avoid cut hidden costs and extras that may be redundant for the end consumer. This especially benefits women who demand tailored financial solutions and greater flexibility. They can also contribute towards enhancing financial literacy through educational materials—articles, videos, and infographics—that teach people about financial concepts such as budgeting, saving, and investing. Digital wallets, provided by firms such as Phonepe, Paytm, enable cashless transactions, empowering individuals including women who lack traditional bank accounts, to handle payments, receive remittances, and access essential services conveniently and securely. Indian fintech firms have been very successful in reducing financial service costs by leveraging technology, eliminating physical infrastructure and operational overheads. Platforms like Paytm and Google Pay offer affordable or free transactions, sidestepping traditional processors and innovators like Paynearby collaborate with micro-entrepreneurs, extending financial services to rural customers, including women ***(Kanupriya Gupta, Anuj Chaudhary 2023)***. AI is enhancing customer experience through hyper-personalization using deep insights into customer behavior, which enables them to offer personalized recommendations and customized solutions. For example, firms may offer a shorter repayment term to a woman who owns a seasonal business or may offer a lower rate of interest to a woman who has a good track of repaying loans. Similarly, digital lending platforms use alternative data sources to assess creditworthiness while roboadvisors provide investment strategies based on investors' risk profiles and financial goals. This hyper-personalization not only enhances customer satisfaction but also fosters greater financial literacy empowering consumers to make informed decisions ***(S. S. Gill et al.2022, S. Ahmed, M. M. Alshater, A. El Ammari, and H. Hammami 2022, H. H. Al-Baity 2023, Ahmed, Dr & Hussain, Mohammad & Ahmed, Mohammed & Khan, Imran & Ashiquee Rasool, Mohammad. (2024)***.

However, fintech for financial inclusion also poses substantial risks. The foremost concern revolves around cybersecurity threats and data breaches which may compromise personal information and expose consumers to financial fraud or reputational damage and undo all the progress made in terms of financial inclusion. Another issue is that the excessive reliance on algorithms and artificial intelligence in fintech decision-making processes may perpetuate prejudices, resulting in unequal access to fair credit. For example, if women and rural people were historically denied credit more frequently than urban borrowers, an algorithm trained on this data may be more inclined to deny credit to women and rural borrowers, even if they are equivalently eligible ***(https://www.pwc.in, Fabio Natalucci, Mahvash S. Qureshi, Felix Suntheim 2024)***. However, all studies show that the benefits of fintech services could far outweigh the risks if customers remain cautious and well-informed and if the government enacts and implements robust consumer protection rules and if the regulator has clear regulatory frameworks for mitigating potential risks ***(Jagtiani, Julapa & John, Kose. (2018).***

Technology could be India's best asset in reducing its financial inclusivity problem. The next phase of financial inclusion should therefore focus less on policy and more on educating people, spreading financial and digital awareness throughout society, and educating financial inclusion beneficiaries about the potential for expanding rural enterprises by utilising their rights to borrow and their responsibility to repay bank loans. This literacy campaign will require a multifaceted, bottom up approach. Reserve Bank of India, in coordination with other banks and educational institutions, should ensure financial inclusion as a compulsory subject at various levels of studies right from school to higher levels of education, so that the forthcoming generation of students understands the need of cultivating a healthy loan repayment culture and society grows more technologically savvy. To promote the development of financial and digital literacy, project efforts on financial inclusion should be given a high priority. NGOs, corporations, banks, non-banking financial companies (NBFCs), and government departments involved in financial inclusion should be pushed to step up their efforts. Financial inclusion is a long-term project that will continue to evolve over the time ***(Dean Karlan 2014, Adele Atkinson, Flore-Anne Messy-OECD)*** . The country needs to focus on the solutions at hand while working diligently to overcome their weaknesses as there is no perfect answer available and waiting for one will only magnify the problem. The commitment to financial inclusion is not just about economic growth but also about fostering a more equitable and inclusive society and delays can be damaging to the socio-economic framework of the country.

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