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Research Paper

Promoting Economic Growth through Financial Inclusion in India

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ABSTRACT

India has witnessed remarkable progress in advancing financial inclusion, aimed at ensuring affordable and accessible financial services for all, particularly low-income and underserved populations. The national thrust toward financial inclusion has focused on addressing long-standing challenges such as inadequate banking infrastructure, limited financial literacy, and geographic barriers. The rapid expansion of digital technologies—including mobile banking, the Unified Payments Interface (UPI), and fintech-led solutions—has significantly widened financial access, enabling deeper integration of remote and marginalised communities into the formal financial system. Financial inclusion today goes beyond basic banking access; it seeks to empower individuals by facilitating participation in economic activities, enhancing financial security, and improving overall livelihoods. This inclusion-driven approach has strengthened economic growth in India by expanding access to credit, insurance, savings instruments, and digital payment platforms. Government initiatives such as Pradhan Mantri Jan Dhan Yojana (PMJDY), MUDRA Yojana, and nationwide financial literacy programs have further accelerated financial deepening and increased financial awareness. As a result, India has seen substantial growth in the number of bank accounts, credit uptake, and digital transaction volumes. This study examines these transformative initiatives and evaluates the extent to which financial inclusion has contributed to economic growth and development in India.

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1. INTRODUCTION

Financial inclusion serves as a powerful catalyst for economic growth, particularly when implemented with strategic planning and sustained commitment. In recent years, India has made remarkable progress in this domain, recognising financial inclusion as a key driver of sustainable and inclusive socio-economic development, poverty reduction, and employment generation (Grant Thornton, 2020). The country has adopted cost-effective and scalable methods to advance financial inclusion, especially across rural and remote regions where access to formal financial services was historically limited (Grant Thornton, 2020). By leveraging digital technologies and addressing traditional barriers such as inadequate infrastructure, limited financial literacy, restrictive legal frameworks, and high transaction costs, India has successfully expanded the reach of banking and financial services to underserved populations (Derryl D'Silva et al., 2019). Financial inclusion becomes truly effective only when individuals from all socio-economic segments participate actively in formal financial systems and markets. Between 2014 and 2019, India's digital economy grew 2.4 times faster than the overall economy, underscoring the transformative role of digitalisation in strengthening financial inclusion and fostering economic growth (Dhirendra Gajbhiye et al., 2022). Technology-led reforms in the financial sector have significantly enhanced efficiency, transparency, and economic opportunities, as highlighted in the Economic Survey 2022–23. The Reserve Bank of India's National Strategy for Financial Inclusion (2019–24) further outlines a clear vision for expanding financial access by promoting comprehensive and affordable financial services, particularly in underserved regions. The strategy also emphasises the importance of financial literacy and consumer protection to ensure responsible and inclusive financial participation.

Statement of the Problem

Despite India's significant progress in expanding financial inclusion through initiatives such as Pradhan Mantri Jan Dhan Yojana (PMJDY), MUDRA loans, and rapid digitalisation, large sections of the population remain outside the effective reach of the formal financial system. Although millions of bank accounts have been opened, challenges persist in terms of account usage, access to affordable credit, financial literacy, and the ability of marginalised groups to meaningfully participate in financial markets. A considerable number of accounts remain dormant, reflecting gaps between access and actual financial behaviour. Moreover, rural households, women, informal workers, and micro-entrepreneurs continue to face structural and socio-economic barriers, including low-income levels, limited digital capabilities, and inadequate institutional support. The persistent digital divide further restricts the benefits of fintech-driven inclusion, as not all citizens possess the necessary technological skills or infrastructure to utilize digital financial services. These limitations raise critical questions regarding the real effectiveness of financial inclusion initiatives in contributing to broad-based, sustainable economic growth. In this context, the core problem is determining whether financial inclusion efforts translate into tangible economic development outcomes, and identifying the constraints that hinder inclusive financial participation. Addressing this problem is essential for designing policies that ensure equitable growth and reduce socio-economic disparities.

2. OBJECTIVES OF THE STUDY

This study, which discusses the various aspects of financial inclusion, has focused on the following objectives:

1. To discuss the concept of the meaning of financial inclusion
2. To discuss the initiatives taken for promoting financial inclusion in India

Research Design

This study is descriptive in nature and based on secondary data. The key websites like RBI, Ministry of Finance, and Economic Survey have been utilised for gathering related information. Apart from these, other secondary sources have also been used for this study.

3. LITERATURE REVIEW

Financial inclusion has been extensively studied at both the national and international levels, with numerous studies examining its impact and challenges. A few key studies are discussed below:

Ozili (2020) provided a comprehensive review of recent global evidence on financial inclusion, examining regions worldwide. The study explored issues like optimal financial inclusion, extreme inclusion, and how the formal financial sector could be impacted by risks transmitted from financial inclusion. It also investigated the relationship between financial inclusion and exclusion, particularly considering the economic cycle. The study concluded that financial inclusion influences financial innovation, poverty levels, financial sector stability, economic conditions, financial literacy, and regulatory frameworks. However, the impact of these factors varied across countries.

Derryl D'Silva et al. (2019) highlighted India's approach to building digital financial infrastructure as a public good. The study emphasized that India's experience in financial inclusion could serve as a valuable model for economies at all stages of development.

Ambica & Naga (2018) focused on the steps taken by the Reserve Bank of India (RBI) to strengthen financial inclusion, detailing the performance of various banks in promoting financial inclusion. Their study also analyzed the actions initiated by banks to support this cause.

Iqbal & Sami (2017) explored the relationship between financial inclusion and economic growth, analyzing a seven-year period. Using regression analysis, the study found that the number of bank branches and credit-deposit ratio had a positive and significant impact on India's GDP, while the growth of ATMs showed minimal impact on economic growth.

Dr. Jatan Kanwar Jain (2016) argued that financial inclusion is essential for everyone, regardless of demographics or location, and must be offered at an affordable cost. The study also addressed the challenges of implementing financial inclusion in India and the issues hindering its success.

Financial Inclusion

Financial inclusion is one of the structural reforms in the economy (Economic Survey, 2022-23). Financial inclusion includes the involvement of financial markets, banks and other financial institutions for providing and designing financial products and services to the target parties. Here, the target group includes the weaker section of society and rural areas. RBI has defined financial inclusion as the process that targets vulnerable and weaker sections of society and makes easy availability and accessibility of financial services and products at reasonable prices within a transparent manner.

Initiatives for Promoting Financial Inclusion in India

Under financial inclusion, the following financial services are focused on the target group.

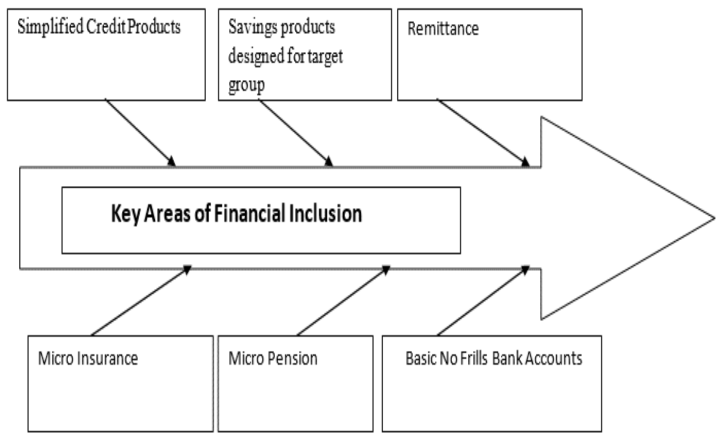


Figure 1: Key Areas of Financial Inclusion

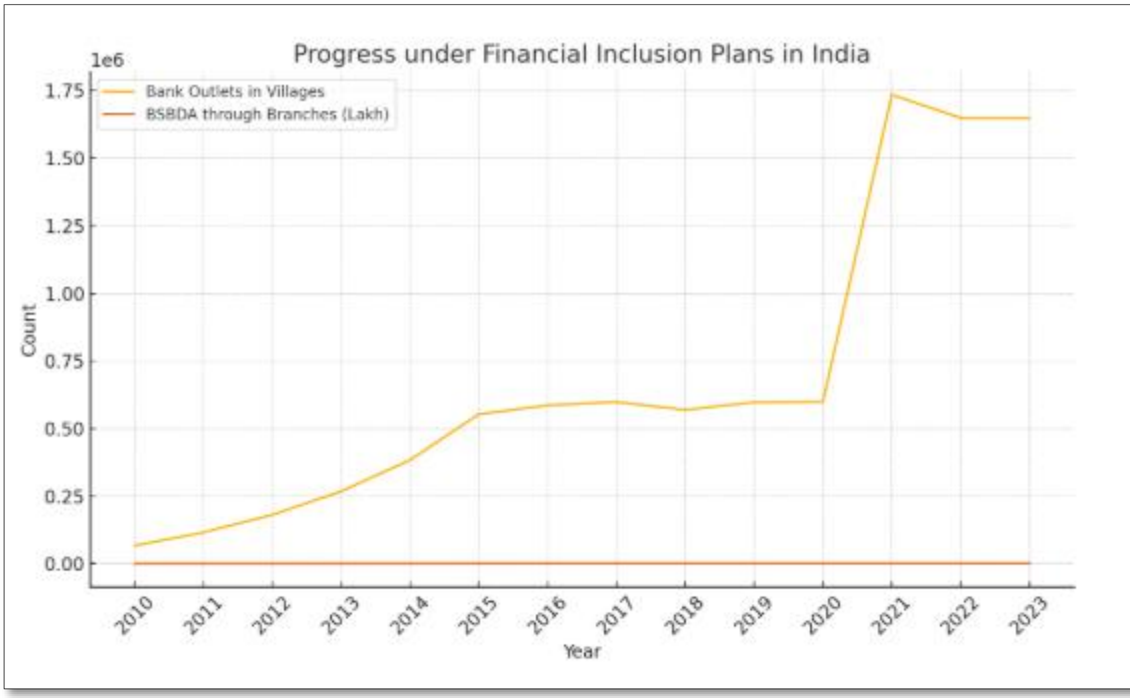
3. Financial Inclusion in Banking Sector

The Indian banking sector has played a tremendous role in financial inclusion and opened several branches in the rural sector for scheduled commercial banks and regional rural banks. It has ultimately achieved a large number of bank outlets and basic bank savings deposit accounts in rural areas. The following table exhibits the progress of the banking sector in the area of financial inclusion:

Table: 3.1 Progress under Financial Inclusion Plans (All SCBs & RRBs)

Year	Bank Outlets in Villages	BSBDA through Branches (No. in Lakh)
Mar-2010	67,694	600
Mar-2011	1,16,208	730
Mar-2012	1,81,753	810
Mar-2013	2,68,454	1,010
Mar-2014	3,83,804	1,260
Mar-2015	5,53,713	2,103
Mar-2016	5,86,307	2,380
Mar-2017	5,98,093	2,540
Mar-2018	5,69,547	2,470
Mar-2019	5,97,155	2,547
Mar-2020	5,99,217	2,616
Dec-2021	17,34,658	2,712
Dec-2022	16,48,780	2,704
Dec-2023	**16,48,780**	**2,780**

Source: RBI



Source: RBI Annual Reports (2010–2020)

4. Financial Inclusion in Micro Insurance

A landmark initiative for promoting financial inclusion has been taken by the Insurance Regulatory Authority of India (IRDA) with the issuance of the IRDA (Micro Insurance) Regulation, 2015. Another considerable initiative is the issuance of the IRDAI (Obligations of Insurers to Rural and Social Sectors) Regulations, 2015, which set forth the obligations for insurers in the rural and social sector. It will open up the door for providing insurance products to the rural and urban poor people. The following Table No. 2 shows the number of new insurance policies issued in 2021-22:

Table 4.1: Number of New Insurance Policies Issued in 2021-22

Year	Type of Insurance Policy	Number of Policies
FY21 2021-22	Life-insurance Segment	10.7 lakh
2021-22	Micro insurance policies	53,046

Source: Constructed from information available from the Economic Survey 2022-23

Several schemes have also been issued by the government in this sector, which are listed in the following Table No. 3 (Economic Survey, 2022-23):

Table 4.2: Schemes Issued by Government

	Name of Scheme	Explanation about the Scheme	Major Result
1	Ayushman Bharat Yojana	Health coverage of ₹5 Lakh per beneficiary for poor and vulnerable families	Till January 20, 2023: Number of beneficiaries having Ayushman Card = 19.7 Crore, Empanelled Healthcare Providers = 28,667
2	Pradhan Mantri Suraksha Bima Yojana	Risk Coverage to beneficiaries: ₹2 Lakh for accidental death and complete Disability ₹1 lakh for partial disability	Till November 30, 2022: Number of enrolled beneficiaries: 31.3 Crore
3	Pradhan Mantri Jeevan Jyoti Bima Yojana	Risk Coverage: ₹ 2 Lakh on the death of the insured.	Till November 30, 2022: Number of enrolled beneficiaries: 14.4 Crore
4	Pradhan Mantri Vaya Vandana Yojana	Old age income security for senior citizens	Till September 30, 2022: Number of subscribers: 8.6 Lakh
5	Pradhan Mantri Fasal Bima Yojana	Risk insurance for farmers against crop damage	Application received: 2763.9 Lakh between 2016 and 2022

Source: (Economic Survey, 2022-23)

5. Progress of Financial Inclusion Via Digital Mode

India has followed the approach of providing digital financial infrastructure in the form of a public good (Derryl et. Al., 2019). The access to formal financial services has been increased simultaneously with a reduction in cost with the introduction of digital public goods (Swallow, Haksar, and Patnam, 2021) and (Economic Survey, 2022-23). It is clearly mentioned in the Economic Survey 2022-23 that progress in public digital infrastructure over the last six to seven years will add 30- 50 basis points to the potential GDP growth. The innovations in the digital area that work as pillars for boosting financial inclusion in India are listed below:

a) Digital Verification (e-KYC)
b) Digital Signature
c) Digital Repositories (Digilocker)
d) Digi Payments (UPI)
e) Digital Identity Aadhar
f) Linking bank accounts with PM-Jan Dhan Yojana
g) JAM Trinity
h) Central Bank Digital Currency (CBDC)

6. Financial Inclusion Index

The Financial Inclusion Index, named as the FI Index, has been constructed as an inclusive index which incorporates banking, insurance, investment, postal and pension industry. This index was launched by the RBI in 2021. It is based on three dimensions, i.e. access, usage and quality. This index will be finalised after consulting with the concerned Government and regulatory body, and gathers information on different parameters of financial inclusion, and finally indicates a single value ranging between 0 and 100. Here, 0 represents complete financial exclusion and 100 shows complete financial inclusion (Economic Times, 2023). This index will ensure that financial services are provided to all weaker sections and low-income groups at affordable prices. According to RBI, the FI-Index has been recorded at a value of 56.4 for the year ended March 2022, and this index stood at 53.9 in March 2021 (Drishti IAS, 2022).

7. CONCLUSION

Achieving long-term financial stability in India requires a comprehensive strategy that integrates both financial inclusion and financial literacy, especially among rural populations and marginalised groups. Financial literacy is essential for ensuring that individuals understand the benefits, risks, and uses of financial products and services, enabling them to make informed financial decisions. Without adequate financial knowledge, financial inclusion initiatives may fail to produce meaningful improvements in the lives of target communities. Thus, strengthening financial literacy is a critical step toward building a truly inclusive financial system that reaches all sections of society. When effectively implemented and continuously monitored, financial inclusion has the potential to significantly advance India's economic growth. Expanding access to affordable financial services for low-income households it breaks long-standing structural barriers and enables broader participation in the formal financial system. This contributes to poverty reduction, improves economic participation, and supports sustainable development. Moreover, financial inclusion acts as a catalyst for accelerating India's digital transformation. The integration of digital payment platforms, mobile banking, fintech innovations, and seamless digital infrastructure enhances the efficiency, transparency, and outreach of financial services. These advancements reduce transaction costs and strengthen last-mile delivery, particularly in remote and underserved regions. In conclusion, financial inclusion is a vital driver of India's economic development. By prioritising financial literacy, ensuring effective policy monitoring, and leveraging digital technologies, India can achieve sustainable and inclusive growth, ensuring that no individual or community is left behind in the country's economic advancement.

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