**Financial Inclusion in India: Specific Insights from Global Findex Report 2021**

**Abstract:**

This manuscript examines the current landscape of financial inclusion within the Indian context, drawing on insights from the Global Findex Report 2021. It underscores the pivotal role that financial inclusion plays in fostering economic development and alleviating poverty, particularly through the facilitation of access to credit and banking services. Furthermore, the manuscript examines the ramifications of digital financial services and mobile money accounts, which have significantly revolutionized banking accessibility for underserved demographics. The literature review reveals that behavioural determinants markedly affect financial inclusion, indicating that policymakers ought to take these elements into account in conjunction with economic assessments. The data extracted from the Global Findex Database indicates that although account ownership has witnessed an upsurge, obstacles persist regarding effective engagement with financial services, particularly among marginalized communities. Despite advancements, impediments such as gender inequities, insufficient financial literacy, and elevated service fees continue to obstruct comprehensive financial inclusion. In summary, the manuscript advocates for targeted interventions aimed at enhancing financial literacy and accessibility, ensuring that all segments of the population can derive advantages from financial services, thereby promoting sustainable economic growth within India.

**Introduction**

The inclusion of the citizenry within the banking and financial framework is imperative in the contemporary epoch of economic development. To achieve this objective, the efficacious execution of financial inclusion strategies is essential. This undertaking will not only expedite the social development of the nation but also enhance its economic progress. It is essential to note that financial inclusion differs fundamentally from social banking and possesses the potential to deliver more substantial benefits to impoverished populations than those provided by social banking in prior instances (Kamath, 2007). The significance of financial inclusion is increasingly acknowledged as crucial for promoting sustainable development and economic prosperity. Numerous initiatives, exemplified by the Pradhan Mantri Jan Dhan Yojana in India, have been instituted to transform the unbanked demographic into banked individuals, signifying a favourable trajectory in account possession and accessibility to financial services. These initiatives aspire to furnish cost-effective financial solutions, thereby promoting economic expansion and social equity (Patil & Patil 2024). Government programs such as the Pradhan Mantri Jan Dhan Yojana in India have effectively augmented banking accessibility for disadvantaged communities, illustrating a direct relationship between financial inclusion efforts and the alleviation of poverty (Kamal 2023).

Moreover, the emergence of financial technology (fintech) solutions has fundamentally transformed the landscape of financial inclusion by utilizing digital innovations to engage populations that have been historically underserved, thereby diminishing transaction costs and enhancing the accessibility of services. Notwithstanding these progressions, obstacles persist, particularly the imperative for augmented financial literacy and the proficient application of technology in rural locales. Financial inclusion transcends a mere financial concern; it represents a holistic strategy aimed at fostering equitable economic development on a global scale.

Well-functioning financial systems fulfil a crucial role by providing a diverse array of savings, credit, payment, and risk management products tailored to individuals with varying requirements. Financial systems that are inclusive—permitting extensive access to financial services without imposing price or non-price barriers—are particularly advantageous for impoverished individuals and other marginalized populations. In the absence of inclusive financial systems, economically disadvantaged individuals are compelled to depend on their meagre savings to invest in educational pursuits or to engage in entrepreneurial activities—meanwhile, small enterprises find themselves reliant on limited revenues to capitalize on potentially lucrative growth avenues. This phenomenon can exacerbate enduring income disparities and impede overall economic advancement (King and Levine 1993; Beck, Demirguc-Kunt and Levine, 2007; Beck, Levine, and Loayza, 2000; Demirguc-Kunt and Levine 2009; Klapper, Laeven, and Rajan 2006; and World Bank 2008).

Financial inclusion in India has experienced remarkable progress, predominantly propelled by the initiatives of the Reserve Bank of India and the ascendance of fintech innovations. Approximately 80% of the Indian populace currently possesses bank accounts; however, obstacles persist, as 76% of the adult demographic lacks adequate financial literacy (Aadarsh and Srivastav, 2024). Fundamental factors influencing financial inclusion encompass income levels, educational attainment, and accessibility to banking infrastructure, whereas challenges such as inadequate network connectivity, confidence in banking intermediaries, and restricted transaction capabilities impede progress (Ozili and Syed, 2024; Vinay Kandpal, 2023). In a comparative analysis, India exhibits superior performance relative to the global average regarding account ownership, yet exhibits deficiencies in borrowing and savings indicators among G20 nations (Mehak and Dharni, 2023). The advent of fintech innovations has emerged as pivotal in addressing existing disparities, enhancing user engagement, and fostering digital payment mechanisms, which are critical for advancing comprehensive financial inclusion. Nevertheless, sociocultural elements and the imperative for enhanced digital literacy persist as considerable obstacles to attaining holistic financial inclusion (Sandhu et al, 2023). In summary, although advancements are apparent, sustained initiatives are essential to mitigate prevailing inequalities and improve financial literacy.

The Indian financial sector, examined through the lens of the World Bank's Global Findex database alongside insights from the Reserve Bank of India (RBI), elucidates notable challenges and prospects regarding financial inclusion. The Global Findex reveals that merely 35% of Indian adults possess a formal banking account, with only 8% having availed themselves of formal loan services, underscoring significant disparities, particularly across gender dimensions, wherein women exhibit inferior financial behaviours such as saving compared to men (Sandhu et al, 2023; Vinay Kandpal, 2023). The regulatory framework established by the RBI has undergone significant evolution since the economic liberalization of 1991; however, the banking system continues to be characterized by public-sector predominance and stringent regulation, factors which may inhibit innovation and restrict liquidity within financial markets (Chakraborty, 2012). Notwithstanding these challenges, the Indian banking sector is currently experiencing a trajectory of growth, propelled by government initiatives designed to bolster financial inclusion through the enhancement of infrastructure and partnerships with technology providers (Krishna et al., 2012). In summary, while advancements have been achieved, focused policy interventions are imperative to rectify the prevailing gaps and facilitate equitable access to financial services (Nandu et al., 2021).

**Review of literature**

Numerous scholarly investigations (Aghion & Bolton, 1997; Banerjee & Newman, 1993; Banerjee, 2001) have posited that access to financial resources is a pivotal element in facilitating individuals' capacity to enhance their production and employment endeavours, thereby enabling their exit from poverty. Academics contend that the quintessential function of the banking sector, namely the provision of credit, is indispensable for the stimulation of economic activities and the enhancement of capabilities (Sen, 2000). Dangi and Kumar (2013) scrutinized the initiatives and policy interventions instituted by the Reserve Bank of India (RBI) and the Government of India. This investigation evaluates the current state of financial inclusion in India, utilizing the Global Findex report of 2021 as a reference. Agrawal (2008) undertook a study of financial inclusion from a behavioural standpoint, incorporating both supply and demand factors. The findings indicated that an assessment from a behavioural perspective offers a significant opportunity for policymakers and marketers to strategically align their methodologies with behavioural dimensions, rather than limiting their considerations to mere economic evaluations.

Conversely, the RBI's financial inclusion policy established in 2003, which aimed to extend financial services to marginalized groups, can be recognized as a notable initiative aimed at fostering inclusive growth within rural demographics. The Committee on Financial Inclusion, in its 2008 report (Rangarajan Committee), identified that facilitating financial inclusion for previously excluded population segments is essential for sustaining and accelerating economic growth. To achieve these objectives, the committee proposed a multifaceted strategy that included the establishment of a National Mission on Financial Inclusion, the revitalization of Regional Rural Banks (RRBs) and Cooperatives, the introduction of a Microfinance Institution (MFI) model (SHG-bank linkage), as well as the Business Facilitator and Business Correspondents Model. Mukherjee and Chakraborty (2012) conducted an analysis of the role and operational efficiency of commercial banks in the state of Jharkhand, alongside the contributions of institutions such as Regional Rural Banks (RRBs), Self-Help Groups (SHGs), and Non-Banking Financial Companies (NBFCs) in promoting financial inclusion. The analytical results indicated that banks fell short of achieving the intended objectives, leading to the recommendation that each bank should report its financial inclusion achievements to the RBI with increased frequency. Uma and Rupa (2013) endeavored to investigate the impact of Self-Help Groups (SHGs) on financial inclusion and demonstrated a positive correlation between SHG membership and financial inclusion. The study disclosed that following membership in SHGs, there was a notable increase in the number of bank accounts, the credit accessed by members, and a favourable trend in the annual loan repayment rates.

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Rana et al. (2020) underscored that digital financial services (DFS) possess considerable potential to provide a multitude of affordable, accessible, and secure banking options to marginalized populations in developing nations through innovative technologies such as mobile phone applications, digital platforms, and electronic monetary models. Balasubramanian & Kuppusamy (2020) contended that the influence of financial literacy is significant in determining women’s access to advanced financial services, including debit and credit cards. A contemporary study conducted by Dar and Ahmed (2020) employed the World Bank Findex database to investigate the demographic determinants affecting access to and utilization of various financial services. The researchers primarily scrutinized the factors influencing financial inclusion and the associated barriers. The study's outcomes reveal that gender, age, education, and income significantly affect debit card ownership and further delineate various indicators of financial inclusion, such as the possession of bank accounts, credit cards, and savings.

**Specific insights from Global Findex Database, 2021**

Globally, 69 per cent of adults have an account. That gives them an important financial tool. Accounts provide a safe way to store money and build savings for the future. They also make it easier to pay bills, access credit, make purchases, and send or receive remittances. Having an account is therefore used by the World Bank and others as a marker of financial inclusion. The 2017 Global Findex database defines account ownership as having an individual or jointly owned account either at a financial institution or through a mobile money provider. The first category includes accounts at a bank or another type of formal, regulated financial institution, such as a credit union, a cooperative, or a microfinance institution. The second consists of mobile phone-based services, not linked to a financial institution, that are used to pay bills or to send or receive money. These mobile money accounts allow people to store money and send and receive electronic payments.

To identify people with a mobile money account, the 2017 Global Findex survey asked respondents about their use of specific services available in their economy — such as M-PESA, MTN Mobile Money, Airtel Money, or Orange Money — and included in the GSM Association’s Mobile Money for the Unbanked (GSMA MMU) database. The definition of a mobile money account is limited to services that can be used without an account at a financial institution. People using a mobile money account linked to their financial institution are considered to have an account at a financial institution. The question on mobile money accounts was asked only in the 77 economies — among the 144 included in the survey — where the GSMA MMU database indicates that mobile money accounts were available at the time the survey was carried out.

**Account Ownership**

Globally, 69 percent of the adult population possesses a financial account. This ownership confers a significant financial instrument. Financial accounts facilitate a secure method for individuals to safeguard their funds and accumulate savings for future endeavours. Additionally, accounts simplify the processes of settling bills, accessing credit, executing purchases, and transferring or receiving remittances. Consequently, the possession of an account is utilized by the World Bank and other organizations as a key indicator of financial inclusion. The 2017 Global Findex database characterizes account ownership as the possession of either an individual or jointly held account at a financial institution or via a mobile money service provider. The first category encompasses accounts established at banks or other types of formal, regulated financial institutions, such as credit unions, cooperatives, or microfinance entities. The second category pertains to mobile phone-based services that operate independently of a financial institution and are employed for bill payment or for the transfer or receipt of funds. These mobile money accounts enable individuals to retain funds and facilitate electronic payment transactions.

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**Table 1: Account Ownership of India**

|  |  |
| --- | --- |
| **Year** | **Value** |
| 2011 | 35.23% |
| 2014 | 53.14% |
| 2017 | 79.88% |
| 2021 | 77.53% |

**Source:** Global Findex Database 2021

**Use of account**

The possession of a financial account constitutes a crucial initial measure towards achieving financial inclusion. However, in order to derive the maximum advantage from account ownership, individuals must possess the capability to utilize their accounts in secure and convenient manners. This segment investigates the various methodologies through which individuals’ access and utilize their financial accounts. Similar to the observed expansion in account ownership, the Global Findex 2021 survey indicated a rise in the utilization of accounts for digital payments as well as for savings and borrowing activities, thereby underscoring the interconnections among these financial services within the larger financial ecosystem. The principal findings are delineated as follows:

**Digital payments**

* The share of adults making or receiving digital payments in developing economies grew from 35 per cent in 2014 to 57 per cent in 2021—an increase that outpaces growth in account ownership over the same period.
* Thirty-nine per cent of adults in developing economies—or 57 per cent of those with a financial institution account—opened their first account at a financial institution specifically to receive a wage payment or money from the government.
* Twenty per cent of adults living in developing economies, excluding China, made a merchant payment using a card, mobile phone, or the internet—and about 40 per cent of them did so for the first time after the start of the pandemic. About 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 COVID-19 pandemic—evidence of the role of the pandemic in accelerating digital adoption

**Savings**

* Twenty-five per cent of adults in developing economies saved using an account, and an even higher share, 39 per cent, used an account to store money for cash management purposes.
* More than half of the people in developing economies who saved any money did so in a formal account in 2021—the first year that formal methods were the most common method of saving.
* Mobile money accounts are an important method of saving in Sub-Saharan Africa, where 15 per cent of adults—and 39 per cent of mobile money account holders—used one to save. Equal shares of adults in Sub-Saharan Africa used a mobile money account and a formal savings account at a financial institution. Borrowing
* About 50 per cent of adults in developing economies borrowed money, although fewer than half used formal means such as taking out a loan from a financial institution, using a credit card, or borrowing through their mobile money account.
* Credit cards were the dominant form of borrowing in high-income economies and in some developing economies such as Argentina, Brazil, China, the Russian Federation, Türkiye, and Ukraine.
* Borrowing only from family and friends is as common in developing economies as borrowing formally, although in some developing economies it far outstripped formal mechanisms.

**Opportunities to increase account ownership through an enabling environment**

* Women, poor adults, the less educated, and those outside the labour market continue to be underserved:

As account ownership grows, women, poor adults, and less educated adults continue to make up the majority of people excluded from the formal financial sector. Improving financial access for these groups will involve building an enabling, inclusive infrastructure for financial services.

In the context of India, a notable absence of gender disparity is observed regarding account ownership. According to the Findex Database for the year 2021, both female and male individuals aged 15 and above exhibit an equal account ownership rate of 78 per cent. While the percentage of female account ownership has experienced a marginal increase of one per cent, the rate of male account ownership has seen a significant reduction of five per cent.

On a global scale, approximately 1.4 billion adults remain unbanked, defined as individuals lacking an account with either a financial institution or a mobile money provider (Global Findex, 2021). This figure represents a decrease from 2.5 billion in 2011 and 1.7 billion in 2017. Given that account ownership approaches universality in high-income economies, it follows that virtually all unbanked adults reside in developing nations. Indeed, 54 percent of the unbanked population, equating to 740 million individuals, is concentrated in merely seven economies. Concurrently, despite exhibiting relatively elevated rates of account ownership, China and India account for substantial proportions of the global unbanked demographic, with figures of 130 million and 230 million, respectively, attributable to their vast population sizes (figure 1). Pakistan, encompassing 115 million unbanked adults, and Indonesia, with 100 million unbanked individuals, follow as the next largest populations of unbanked persons. Collectively, these four economies, in conjunction with Bangladesh, Egypt, and Nigeria, encompass over half of the worldwide unbanked population. The leading five economies hosting the largest proportions of the global unbanked remained consistent from 2017 to 2021.

**Source:** Prepared by Authors

**Reasons for people remain unbanked**

Globally, approximately 24 per cent of adults remain unbanked. To elucidate the underlying reasons for the absence of bank accounts among this demographic, the Global Findex 2021 survey engaged unbanked adults to identify the reasons for their lack of financial institution accounts (a query that Findex has pursued since its establishment) or mobile money accounts (a query introduced by Findex for the inaugural time in the 2021 survey). Participants were permitted to provide multiple justifications, with the majority, on average, citing more than two reasons for their lack of a financial institution account. A significant 62 per cent of the unbanked population identified “lack of money” as one of several responses (see Figure 2). In essence, individuals typically indicated insufficient funds as a primary reason, subsequently citing an additional obstacle, such as the high costs of financial services or their inaccessibility. These responses imply that individuals would be inclined to establish an account if banking fees were reduced or if the proximity of banking facilities were improved. Merely 12 per cent of adults articulated insufficient funds as their singular impediment. Conversely, all other barriers were identified as the sole reason by less than 4 per cent of unbanked adults. On a global scale, 36 per cent of unbanked adults expressed that financial services are prohibitively expensive. This proportion was nearly double in Latin America and the Caribbean, where it reached 60 per cent. Specifically, in Brazil, Colombia, Honduras, Nicaragua, Panama, Paraguay, and Peru, over 60 per cent of unbanked adults cited cost as a significant barrier. Distance constituted an obstacle for 31 per cent of unbanked adults. In certain economies, this figure was proportionately higher, with 53 percent of unbanked adults in Liberia asserting that financial institutions were excessively distant. Other nations where a greater proportion of unbanked adults identified distance as an impediment included Bolivia (47 per cent), India (43 per cent), Lao PDR (45 per cent), and Uganda (41 per cent). On a global scale, 30 per cent of unbanked adults indicated that their lack of an account was due to the existence of an account held by a family member. In certain economies, this rationale was more commonly referenced by women than by men. Among the unbanked population in Turkiye, 39 per cent of women and 25 per cent of men acknowledged this justification. The data uncover notable gender disparities in Algeria, Bolivia, Nepal, Pakistan, and Tunisia, where women are more inclined than men to report this rationale. Most of these nations also exhibited significant gender disparities in account ownership. In contrast, within both China and India, men and women demonstrated comparable probabilities of indicating that they do not hold an account due to the existence of an account by a family member.

**Adults with no account (%) citing a given barrier as a reason for having no financial institution account, 2021**

* Lack of money
* Financial services are too expensive
* Financial services are too far
* Family member has an account
* Lack of necessary documentation
* Lack of trust in religious reasons

**A Case for India**

In the context of financial inclusion within India, the "utilization of accounts" constitutes a pivotal component of the nation's endeavours to guarantee that all citizens, particularly those hailing from economically marginalized demographics and rural territories, obtain access to financial services. The advancement of financial inclusion in India has been markedly propelled by a multitude of governmental initiatives, technological advancements, and the proliferation of banking services in historically underserved locales. Nevertheless, numerous challenges and obstacles endure in the proficient utilization of accounts, especially among economically disadvantaged and rural communities. The following delineates some of the principal challenges:

**Source**: Global Findex Database 2021

 A considerable proportion of individuals identify a deficiency of financial resources as a principal obstacle to the acquisition of financial services. This observation implies that financial institutions ought to contemplate the introduction of more economically viable alternatives to accommodate low-income demographics. Numerous participants assert that the cost of financial services is prohibitively high. This prevailing perception may dissuade prospective clients from pursuing essential financial support, thereby indicating a requirement for more competitive pricing structures or subsidized offerings to enhance accessibility. Importantly, the presence of a family member with an established account can positively influence an individual's likelihood of utilizing financial services. This finding underscores the significant role that social networks play in the process of financial decision-making and suggests that financial institutions could capitalize on this by promoting family-focused financial products. Certain individuals reference religious convictions as a rationale for their avoidance of specific financial services. This highlights the necessity for financial institutions to exhibit cultural sensitivity and take into account the varied belief systems of their clientele when formulating products and services.

**Use of financial services**

Like the growth found in account ownership, the Global Findex 2021 survey revealed growth in the use of accounts to make digital payments and save and borrow, highlighting how these financial services overlap in the broader financial ecosystem. The key findings are as follows:

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**Borrowing**

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**A Case for India**

India, characterized by its extensive population and heterogeneous socio-economic environment, exemplifies a distinctive scenario for financial services. Historically, a considerable segment of the population faced exclusion from formal financial services, attributed to elements such as insufficient income, inadequate financial literacy, and geographical obstacles. Nevertheless, the preceding decade has witnessed a concerted initiative by governmental entities, financial institutions, and fintech enterprises aimed at integrating a larger demographic into the financial system. The utilization of financial services within India has experienced substantial growth over the last ten years, propelled by an array of factors including governmental policies, technological innovations, and an escalating emphasis on financial inclusion. Herein lies a comprehensive overview of the pivotal elements:

 **Table 2: Uses of financial services by age 15+**

|  |  |
| --- | --- |
| **Use of Financial Service** | **Value (%age 15+)** |
| Made or received a digital payment | 35 |
| Saved at a financial institution, rural | 11 |
| Saved at a financial institution, urban | 15 |
| Borrowed any money, rural | 45 |
| Borrowed any money, urban | 44 |

 **Source:** Global Findex Database 2021

The analysis of financial services usage in India reveals significant insights into account utilization and the broader adoption of financial services. Here are the key conclusions:

* **Limited use of accounts**: A notable portion of adults in India do not actively use their financial accounts. The primary reasons for this inactivity include distance from financial institutions, lack of trust in the banking system, and a perceived lack of necessity for using an account. For instance, 34% of men and 26% of women with inactive accounts reported discomfort in using their accounts independently (Global Findex Report 2021), indicating a gender disparity in confidence and comfort levels with financial services.
* **Predominance of payments**: Globally, payments are the most commonly used financial service, and this trend is reflected in India as well. Many adults primarily use their accounts for making payments rather than for savings or borrowing. This pattern suggests that while account ownership exists, the functionality of these accounts is not fully leveraged for broader financial activities.
* **Dual usage patterns**: In India, a significant number of adults utilize their accounts solely for payments, while others engage in a combination of payments and savings or payments and borrowing. This dual usage indicates that while there is some engagement with financial services, it is often limited to basic transactions rather than comprehensive financial management.
* **Potential for growth in financial services**: The findings suggest that there is substantial room for growth in the adoption of financial services among both banked and unbanked adults in India. By promoting digital payments and enhancing the appeal of financial products, stakeholders can encourage more individuals to utilize their accounts for a wider range of services, including savings and borrowing.
* **Need for trust and accessibility**: To increase the use of accounts and financial services, it is crucial to address the barriers to trust and accessibility. Initiatives that build confidence in the banking system and improve access to financial institutions can significantly enhance account usage and the overall adoption of financial services in India.

These conclusions highlight the current state of financial service usage in India, emphasizing the need for targeted strategies to enhance account utilization and broaden the scope of financial services among the population.

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