

Report Summary

National Strategy for Financial Inclusion

- The Reserve Bank of India (RBI) released the National Strategy for Financial Inclusion 2019-2024 on January 10, 2020. It sets forth the vision and objectives of financial inclusion policies in India. The strategy was prepared by the RBI with inputs from the central government and financial sector regulators (Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India and Pension Fund Regulatory and Development Authority of India).
- The report refers to financial inclusion as the process of ensuring access to financial services, and timely and adequate credit for vulnerable groups and low-income groups at an affordable cost. Financial inclusion has a multiplier effect in boosting overall economic output, reducing poverty and income inequality, and in promoting gender equality and women empowerment.
- **Lessons from other countries:** RBI observed that, as of mid-2018, more than 35 countries, including China, Brazil, and Indonesia have a national financial inclusion strategy. Some common themes across these nations include: (i) following a target-based approach (by targeting specific sectors), (ii) strengthening requisite infrastructure of payment mechanisms, (iii) strong regulatory framework, (iv) focus on last-mile delivery and financial literacy, (v) use of innovation and technology, and (vi) periodic monitoring and evaluation of progress made in financial inclusion.
- **Steps taken for financial inclusion:** The RBI noted that several steps have been taken to further financial inclusion in the country. These include: (i) Pradhan Mantri Jan Dhan Yojana (PMJDY), under which 34 crore accounts have been opened with deposits amounting to Rs 89,257 crore (as of January 2019), (ii) schemes such as the Pradhan Mantri Suraksha Bima Yojana to provide accidental death or disability cover and Atal Pension Yojana to provide pension cover to subscribing bank account holders.
- Further, it noted that the bank-led model of financial inclusion adopted by the RBI through issuance of differentiated banking licenses (small finance banks and payments banks) and the launch of Indian Post Payments Bank in September 2018 has helped bridge the gap in last mile connectivity. However, certain critical gaps remain an impediment for financial inclusion, such as: (i) inadequate infrastructure (in parts of rural hinterland, far flung areas in Himalayan and north-eastern region), (ii) poor tele and internet connectivity in rural hinterland, (iii) socio-cultural barriers, and (iv) lack of market players in payment product space.
- **Strategic objectives for financial inclusion:** RBI identified six strategic objectives of a national strategy for financial inclusion: (i) universal access to financial services, (ii) providing basic bouquet of financial services, (iii) access to livelihood and skill development, (iv) financial literacy and education, (v) customer protection and grievance redressal, and (vi) effective coordination. To achieve this vision, it identified certain milestones such as: (a) providing banking access to every village (or hamlet of 500 households in hilly areas) within a five km radius by March 2020, (b) strengthening digital financial services to create infrastructure to move towards a cash less society by March 2022, and (c) ensuring that every adult has access to a financial service provider through a mobile device by March 2024.
- For providing universal access to financial services, RBI noted that while schemes such as PMJDY have created the required banking infrastructure to enable financial inclusion, efforts are required to improve access to insurance and pension services. It recommended that every willing and eligible adult who is enrolled under PMJDY should be enrolled under an insurance or pension scheme by March 2020. Similarly, for financial literacy and education, specific modules for target audience (children, entrepreneurs, senior citizens) should be developed through the National Centre for Financial Inclusion and centres for financial literacy should be expanded to reach every block in the country by March 2024.
- **Measurement of financial inclusion:** RBI recommended that financial inclusion should be measured through parameters across three key indicators. These include parameters to: (i) measure access, such as number of bank branches or ATMs for a specified population, (ii) measure usage, such as percentage of adults with a saving account, insurance or pension policy, and (iii) measure quality of services, such as grievance redressal (through number of complaints received and addressed). Additionally, it recommended conducting surveys to assess the current impediments to financial inclusion (such as issues faced while using digital services, knowledge of customer rights and attitude of service provider).

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