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CONCEPTUAL EVOLUTION OF FINANCIAL INCLUSION

Dr. Veena M

Assistant Professor, Department of Commerce, Vijayanagara Sri Krishnadevaraya University, Ballari. Karnataka, India

ABSTRACT **DOI No: 10.36713/epra10762** **Article DOI:** https://doi.org/10.36713/epra10762

Financial inclusion is one of the tools to stimulate economic growth, arguably due to following reason: affordable access to financial services wills re-duce the vulnerability of poor population by improving their standard of living. The concept of financial inclusion can be traced back in 1993 with its contrary concept financial exclusion is a process that prevents poor and disadvantaged social groups from gaining access to the formal financial systems of their countries. Many studies have been conducted exploring the negative shades of Financial Exclusion. The discussion on financial exclusion and its surrounded constraints have brought the concept of financial inclusion into the picture. The term Financial Inclusion has introduced as a positive contrary to the concept Financial Exclusion and had gone through various changes in its definition and its understanding. The present has attempted to trace the evolution of the concept financial inclusion (from physical to digital) and its changing scope. For the purpose of the study more than 150 articles have been reviewed and comprehensively interpreted. The understanding of the researcher on the concept of financial inclusion and its changing form is narrated in the paper.

KEYWORDS – ***Financial Exclusion, Financial Inclusion, Financial Services, Financial access, Usage, Digital Financial inclusion etc***

Financial services that are inclusive would enhance the vulnerable populations' ability to escape poverty

- H.M. Queen Maxima of the Netherlands

Financial inclusion is not just about money…. It is about opening up a path to opportunity

- H.M. Queen Maxima of the Netherlands

Financial Inclusion helps lift people out of poverty and can help speed economic development. It can draw more women into the mainstream of economic activity, harnessing their contributions to society.

- Sri Mulyani Indrawati

when women have money in their pockets, that drives other key outcomes like better health for the family, educated children, lower birthrates, and more sustainable communities—all Sustainable Development Goals in and of themselves

- Street Business School, Uganda

I dream of a digital India where mobile and E-Banking ensures financial inclusion

- Honarable P M Narendra Modi

Economic theory suggests that sound and efficient financial systems—banks, equity markets, and bond markets—which channel capital to its most productive uses are beneficial for economic growth. Sound and efficient financial systems are especially important for sustaining growth in developing countries like India.

Financial sector development plays vital role in economic growth as the primary goal of financial sector development is mobilizing savings, thus augmenting the quantity of investment toward improving the efficiency of investment, and thereby contributing to higher economy wide productivity.

The fact, development of the financial system contributes to the economic development has been established by a large body of empirical research. Developing the financial sector and improving access to finance may accelerate economic growth by reducing income inequality and poverty. As in underdeveloped financial system, access to finance is limited, people and firms are constrained by the availability of their own funds or alternatively, have to resort to high cost informal sources. Lower availability of funds and higher cost of it results in fewer economic activities which ultimately results in lower economic growth.

On the other hand, Countries with better-developed financial systems tend to enjoy a sustained period of growth, and studies confirm the causal link between the two: financial development is not simply a result of economic growth; it is also the driver for growth.

Financial development is possible only when it is “inclusive”; creating economic opportunities to along with ensuring equal access to underprivileged section of the society. Inclusiveness has two main components one is Social Inclusion and the other Financial Inclusion.

Social inclusion is the positive steps towards combating the risk of individuals or groups being excluded from mainstream society for reasons such as unemployment, low income, poor housing and family conflict. **It is a process** by which efforts are made to ensure equal opportunities – that everyone, regardless of their background, can achieve their full potential in life.

The other part of Inclusiveness that is Financial inclusion has discussed and debated widely as it is gaining importance as a major step towards inclusive growth.

WHAT IS FINANCIAL INCLUSION?

Financial inclusion is a major step towards inclusive growth. It helps in the overall economic development of the underprivileged population. In India, effective financial inclusion is needed for the uplift of the poor and disadvantaged people by providing them with the modified financial products and services.

However the concept of financial inclusion can be traced back in 1993 with its contrary concept financial exclusion. The concept of financial exclusion has been addressed by various researchers as a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society to which they belong.

A brief narration on evolution of the concept of financial inclusion has been attempted in this study. It goes as follows:

The concept of financial inclusion can be traced back in 1993 with its contrary concept financial exclusion. An early attempt has been made by Leyshon and Thrift (1995) referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system.

According to Sinclair (2001), financial exclusion means the inability to access necessary financial services in an appropriate form.

Carbo et. al. (2005) have defined financial exclusion as broadly the inability (however occasioned) of some societal groups to access the financial system.

According to Conroy (2005), financial exclusion is a process that prevents poor and disadvantaged social groups from gaining access to the formal financial systems of their countries.

According to Mohan (2006) financial exclusion signifies the lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream providers.

Financial exclusion implies limited accessibility of individuals to formal financial services. It is estimated that more than three billion people are financially excluded around the world(Agrawal, 2008).

The European Commission (2008) has addressed the issue of financial exclusion, as "a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society to which they belong.

A committee on financial exclusion has come to describe the inability, difficulty or reluctance to access mainstream financial services, in which, without intervention, can stimulate social exclusion, poverty and inequality.

LITERATURE IDENTIFIES FIVE MAJOR FORMS OF FINANCIAL EXCLUSION –

Access exclusion - where segments of population remain excluded from the financial system either due to remoteness or non-availability of financial products to access.

Condition exclusion- when exclusion occurs due to conditions that are inappropriate for some people

Price exclusion - when the exclusion happens due to unaffordable prices of financial products.

Marketing exclusion - when exclusion occurs due to targeted marketing and sale of financial products to the privileged section of the society

Self-exclusion, that takes place when certain groups of people exclude themselves from the formal financial system owing to fear of refusal or due to psychological barriers (Kempson and Whyley, 1999, Kempson and Whyley, 1999, Financial Exclusion 2018).

The discussion on financial exclusion and its surrounded constraints have brought the concept of financial inclusion into the picture.

The term 'financial inclusion', first used in UK public policy in 1997, has in many respects replaced 'financial exclusion' in much of the policy and literature on this topic. It has been suggested that an individual might experience financial inclusion if they have the ability to:

• Manage day-to-day financial transactions;
• Meet expenses (both predictable and unpredictable);
• Manage a loss of earned income; and
• Avoid or reduce problem of debt

In line with this, Miller, (2005) said, financial inclusion refers to delivery of financial system of an economy to its members. He continues that the financial inclusion has an important role to play in achieving poverty reduction.

However, many studies have been conducted to address the problem of financial exclusion and suggested for the inclusion of people in economic activities where goods and services are traded for cash. When people become part of economic clusters it allows them to access to the funds and savings, and facilitates capital inflows and remittances through affordable cost. This is how financial inclusion takes place among the people. Further this financial inclusion enables the poor to participate in investment activities in both physical and human capital, hence increase the productivity of the poor community.

Financial literacy as key to financial inclusion

The concept of financial inclusion has been presumed as awareness and involvement of people in monetary transactions. The OECD has a working definition of financial literacy stressed the role of financial literacy in financial inclusion. It considers financial literacy as key to financial inclusion. OECD in its working paper on Financial literacy, defines financial literacy as"a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well being and inclusion.

In simple terms, it refers to a set of skills that allow people to manage their money wisely along with some understanding of essential financial concepts, not least an appreciation of the trade-off between risk and return. Financial literacy is essential for enabling people to be included financially.

Financial Access as Financial Inclusion

In order to promote the financial inclusion, financial inclusion taskforce, comprised of industry, third sector, consumer groups, local government and academia, was set up to advice Government departments.

The task force undertook comprehensive monitoring of financial inclusion and initiatives, and realized the real meaning of the concept of financial inclusion and revised their mission. As per the taskforce (Mission of taskforce) the concept financial inclusion includes:

- Increase access to banking;
- Improve access to affordable credit, savings and insurance; and
- Improve access to appropriate money advice.

On the other hand, a special committee on financial sector reforms headed by the Rangarajan C has defined financial inclusion 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."

Both the committees have stressed the term "Access" to the financial products as means of financial inclusion.

In line with the above, Kelly and Rhyne, (2015) and The Center for Financial Inclusion defines "full financial inclusion" as "a state in which everyone who can use them has access to a range of quality financial services at affordable prices,with convenience, dignity, and consumer protections, delivered by a range of providers in a stable, competitive market to financially capable clients."improve their lives."

In addition the researches conducted by Dev (2006), Leeladhar (2006), Sarma (2008), Rajan R G et al (2008), Agarwal (2008), Dasgupta (2009), Claessens and Per-rotti 2007; Rajan 2009, Sethi and Acharya, Shankar (2013), Chakrabarthy (2013) and others have stated financial inclusion as universal access to a wide range of financial services at a reasonable cost.

Financial Access and Usage as Financial Inclusion

India has now 180 billion accounts. But 48 per cent of the bank accounts have seen no transactions in the last one year, according to the World Bank's Global Findex database. one must remember that the right measure of financial inclusion is not access, but regular usage as many research studies stressed fact that Financial inclusion is not mere providing access to

financial products and services but level of their usage by the people.

The studies conducted by European Commission (2008), Hannig & Jansen, (2010), have ascribed that mere access to the financial services is not real financial inclusion, financial inclusion should include access and use of financial services too.

Findex Database, Demirgüç-Kunt (2015) in their working paper on the Global financial index, noted that financial inclusion, "at its most basic level, starts with having a bank account," but it does not end there, as "only with regular use do people fully benefit from having an account."

Sahay et al. (2015) said financial inclusion as the use of formal financial services among different groups that benefit the welfare of many individuals.

According to Mandira Sarma (2015) financial inclusion is a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. This definition emphasizes several dimensions of financial inclusion, viz., accessibility, availability and usage of the financial system.

Klapper and Hess (2016) argue that "financial inclusion means that formal financial services—such as bank accounts, loans, and insurance—are readily available to people, and that they are actively and effectively using these services to meet their needs."

CGAP (2017) notes "financial inclusion efforts seek to ensure that all households and businesses, regardless of income level, have access to and can effectively use the appropriate financial services they need to improve their lives."

Many other supportive studies (Raza M. S., Fayyaz, M., & Syed, N), (Demirguc-Kunt, A., Klapper, L., & Singer, D) have been conducted in line with these and stated that Financial inclusion is the availability, access, and usage of financial products and services for underprivileged people.

Equity in financial Inclusion

"The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little." - Franklin D. Roosevelt

The above saying of Franklin D. Roosevelt sounds true since the real financial inclusion cannot be achieved without including unprivileged sections of the society. The real financial inclusion means ensuring that all individuals irrespective of their races, genders and abilities, have equal access to financial services and products that can help them generate greater wealth as supported by the following studies.

Sarma, (2012) FI is the procedure there every member of the society positively and equally contributed and help the weaker section of the society.

Aduda & Kalunda, (2012). the term FI is the state of access to the financial product and service at low and affordable cost to the entire population without any discrimination.

Allen *et al.*, (2012). the financial delivery of the financial service at affordable cost to the member of the society who is excluded from the basic financial service.

Messy and Monticone, (2012) FI is one way by which we promote the objective of inclusive growth through the provision of easy access to financial services among the most disadvantaged sections of society. Financial Inclusion is recognized as an important component in the drive to increase prosperity across developing countries

Demirgüç-Kunt et al. (2013) conceptualized financial inclusion as an economic state where nobody is denied access to primary financial services based on motivations other than efficiency criteria.

J. Bagyenda (2013) The Financial Inclusion can be defined as "the pursuit of making financial services accessible at affordable costs to all individuals and businesses, irrespective of net worth and size respectively

The World Bank (2017), Bank of Indonesia and Bank of Malaysia have defined financial inclusion as the "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". Financial inclusion or banking sector outreach is the process of availing a range of required financial services, at a fair price.

The literature developed by Markose (2020) says that the"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", this definition by the World Bank stresses on the need for a banking system to provide the basic financial services in a cost effective manner to all entities.

Shenkar Kumar S and Jayeprabha (2021) Financial inclusion is the process of confirming access to financial services and adequate credit at timely, wherever required by vulnerable groups such as low income groups and weaker sections at a reasonable cost.

As per the studies conducted by Raza, M. S., Fayyaz, M., & Syed, N), (Demirguc-Kunt, A., Klapper, L., & Singer, D, Hannig and Jansen, 2010; Ghosh and Ghosh, Sarma & Pais,(2011), Aduda & Kalunda, (2012), Allen *et al.*, (2012), Messy and Monticone, (2012), Demirgüç-Kunt et al. (2013), 2014;Camara, Tuesta, 2015; World Bank 2018, the comprehensive definition of financial inclusion includes accessibility,

availability, and usage of the formal financial system for all members of an economy without any discrimination.

Financial Inclusion from Physical to Digital

Financial inclusion has become flagship agenda of many countries including India. Even it has taken part in Sustainable developmental goals of the world economies. In a conference held on October 2014**,** Jamie Caruana, General Manager of the Bank for International Settlements, emphasized the point of Digital financial inclusion by noting that institutions including the G20 and global financial regulators '"have the opportunity - and indeed the responsibility - to prepare the standard-setting world for both the risks and the rewards of the digitization of financial services."

The discussion held in the conference helped the global financial sector policy makers to recognize the **"Game Changing potential of Digital Financial Inclusion"**

Digital financial inclusion" can be defined broadly as digital access to and use of formal financial services by excluded and underserved populations. Such services should be suited to customers' needs, and delivered responsibly, at a cost both affordable to customers and sustainable for providers. There are three key components of any such digital financial services: a digital transactional platform**,** retail agents, and the use by customers and agents of a **device** – most commonly a mobile phone – to transact via the platform.

In the next conference Supervisors, regulators and officials from more than 30 countries gathered in Basel, Switzerland, on 26-27 October to discuss the new challenges and opportunities posed by the rapid spread of new technologies and products designed to reach people with little or no access to banking or other formal financial services.

With the prospect of reaching billions of new customers, banks and a widening array of non-banks have begun to offer digital financial services for financially excluded and underserved populations, building on the digital approaches that have been used for years to improve access channels for those already served by the formal financial sector. Digital financial services including those involving the use of mobile phone have been launched in more than 80 countries, with some reaching significant scale.

As a result, millions of formerly excluded and underserved poor customers are moving from exclusively cash-based transactions to formal financial services payments, transfers, savings, credit, insurance, and even securities using a mobile phone or other digital technology to access these services. And the picture is continuing to shift rapidly with the emergence of ever more new technologies on days to come.

CONCLUSION

The review of the literature on the concept of financial inclusion and its evolution helped the researcher make out the pillars of the concept. The concept of financial inclusion is surrounded with the following pillars:

1. Availability or providing access to the financial services and products according to the requirements of the people
2. Creating Financial Awareness and providing financial Education
3. Ensuring the Effective use of financial services and products
4. Providing equity in financial opportunities to all the sections of the society.
5. Developing technological infrastructures and innovations
6. Providing Access to digital financial platforms.

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