RBI FINANCIAL INCLUSION: ECONOMY

NEWS: RBI's financial inclusion index shows growth across all segments, rises 4.3 pc in FY25

WHAT'S IN THE NEWS?

The Reserve Bank of India's Financial Inclusion Index (FI-Index) has significantly risen to 67 in FY25, indicating India's success in expanding access, usage, and quality of financial services across various sectors. This progress, driven by government initiatives like PMJDY, underscores financial inclusion's crucial role in economic empowerment and achieving Sustainable Development Goals.

Financial Inclusion: Definition and Significance

- **Definition:** Financial inclusion means providing individuals and businesses with access to and the ability to use affordable financial products and services that meet their needs. These services should be delivered in a responsible and sustainable manner. This encompasses banking, investments, insurance, and pension services.

- **Catalyst for Development:** Financial inclusion is recognized as a powerful catalyst for achieving broader developmental goals. It is directly linked to at least seven of the 17 Sustainable Development Goals (SDGs) by fostering economic growth and employment, promoting women's economic empowerment, and contributing to poverty eradication. It also helps build resilience for individuals and businesses vulnerable to climate change and natural disasters by enabling access to insurance and savings products.

RBI's Financial Inclusion Index (FI-Index):

- **Comprehensive Measurement:** The FI-Index is a composite index developed by the RBI in consultation with the government and various sectoral regulators. It provides a single value, ranging from 0 (complete financial exclusion) to 100 (full financial inclusion), to comprehensively capture the extent of financial inclusion across India.

- **Sectoral Coverage:** It incorporates data from various sectors, including banking, investments, insurance, postal services, and the pension sector, ensuring a holistic view of financial access and usage.

- **Key Parameters and Weightage:** The index is structured around three broad parameters, each with a specific weightage:

    - **Access (35% weightage):** This parameter reflects the ease with which financial services are physically and digitally available to the population.

    - **Usage (45% weightage):** This is the most heavily weighted parameter, indicating how frequently and effectively people are utilizing the available financial services and products.

    - **Quality (20% weightage):** This parameter assesses the qualitative aspects of financial inclusion, including financial literacy levels, the robustness of consumer protection mechanisms, and the reduction of inequalities and deficiencies in service delivery.

Key Findings of Recent Data (FY25):

- **Significant Rise:** The FI-Index witnessed a notable increase, rising from 64.2 in March 2024 to 67 in March 2025, representing a 4.3% growth.
- **Across-the-Board Improvement:** This positive growth was observed across all three sub-indices: Access, Usage, and Quality, indicating a comprehensive improvement in financial inclusion.
- **Usage and Quality as Drivers:** The report highlights that the improvement in FY25 was primarily driven by gains in the Usage and Quality dimensions. This suggests a deeper engagement with financial products and services by the population and the positive impact of ongoing financial literacy and consumer protection efforts.
- **Strengthening Financial Ecosystem:** The consistent rise in the FI-Index signals India's growing success in expanding financial access to underserved populations and enhancing the quality of available financial services. This progress is crucial for supporting the government's broader agenda of economic empowerment and inclusive growth, ultimately contributing to the strengthening of India's formal financial ecosystem.

Related Initiatives by the Government of India:

The Government of India has launched several flagship initiatives that have been instrumental in driving financial inclusion:

- **Pradhan Mantri Jan Dhan Yojana (PMJDY):** A national mission for financial inclusion, it has led to the opening of over 54.58 crore bank accounts by January 2025, with deposits totaling ₹2.46 lakh crore, bringing millions of unbanked individuals into the formal banking system.
- **Atal Pension Yojana (APY):** A social security scheme focused on pensions, it has seen a significant surge in enrolments, reaching 7.33 crore by January 2025, with over 89.95 lakh new enrolments in FY 2024-25, promoting old-age income security.
- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):** A life insurance scheme, it has enrolled 22.52 crore individuals and disbursed ₹17,600 crore for 8.8 lakh claims, providing crucial financial security to beneficiaries' families.
- **Pradhan Mantri Suraksha Bima Yojana (PMSBY):** An accidental death and disability insurance scheme, it has covered 49.12 crore people, processing ₹2,994.75 crore against accident claims, offering affordable protection against unforeseen events.
- **Stand-Up India Scheme:** This scheme focuses on promoting entrepreneurship among women and Scheduled Castes/Scheduled Tribes (SC/ST). It has sanctioned ₹53,609 crore in loans to 2.36 lakh entrepreneurs, specifically targeting these marginalized groups.
- **Pradhan Mantri Mudra Yojana (PMMY):** Designed to provide collateral-free loans to micro and small enterprises, PMMY has sanctioned ₹32.36 lakh crore for 51.41 crore loans. Notably, 68% of these loans have benefited women entrepreneurs, and 50% have gone to SC/ST/OBC categories, indicating its significant impact on inclusive growth.

Challenges of Financial Inclusion:

Despite significant progress, several challenges persist:

- **Global Disparities:** Large gaps in account ownership and access to financial services remain between high-income and low-income countries.

- **Gender Gap:** Women, particularly in developing countries, continue to face greater barriers and are less likely to have access to formal financial services compared to men.

- **Digital Divide:** Inadequate digital infrastructure, especially in rural and remote areas, coupled with low levels of digital literacy, continues to hinder access to and effective use of mobile financial services.

- **Consumer Protection Deficiencies:** Weak regulatory frameworks and inadequate consumer protection mechanisms leave users vulnerable to fraud, misuse of personal data, lack of transparency in financial products, and insufficient grievance redressal mechanisms.

- **Lack of Awareness and Financial Literacy:** Many individuals, especially in underserved populations, lack basic financial knowledge and awareness about the benefits and risks associated with various financial products, leading to underutilization or misinformed decisions.

- **High Transaction Costs/Minimum Balances:** For low-income individuals, minimum balance requirements in accounts or high transaction fees can act as significant barriers to entry and sustained usage of formal financial services.

Suggestions and Way Forward:

- **Strengthening Regulatory Frameworks:** There is an ongoing need to enhance and adapt regulatory frameworks to address the evolving landscape of digital financial services, ensuring they are safe, secure, and fair for all users.

- **Robust Consumer Protection:** Strengthening consumer protection mechanisms is paramount to build trust and confidence in digital financial services. This includes clear disclosure norms, efficient grievance redressal systems, and safeguards against fraud and data misuse.

- **Empowering Marginalized Communities:** The Government of India's ongoing financial inclusion initiatives are crucial for empowering economically and socially marginalized communities. Continued focus on these programs is essential to facilitate equitable access to formal financial services for everyone.

- **Targeted Financial Literacy Programs:** Expanding and tailoring financial literacy programs to suit diverse demographics and regions can significantly improve people's understanding and effective utilization of financial products.

- **Investing in Digital Infrastructure:** Continued investment in robust and accessible digital infrastructure, particularly in rural areas, is vital to bridge the digital divide and ensure seamless access to mobile financial services.

- **Product Innovation:** Financial service providers need to develop innovative and customized financial products that cater specifically to the needs of the underserved, considering their income patterns, risk profiles, and cultural contexts.

Source: https://economictimes.indiatimes.com/industry/banking/finance/rbis-financial-inclusion-index-shows-growth-across-all-segments-rises-4-3-pc-in-

fy25/articleshow/122833330.cms?from=mdr