Journal of Corporate Finance Management and Banking System
ISSN: 2799-1059
Vol : 03 , No. 01 , Dec 2022 - Jan 2023
http://journal.hmjournals.com/index.php/JCFMBS
DOI: https://doi.org/10.55529/jcfmbs.31.5.16

Financial Inclusion of Rural Poor in India

Mr. Showkat Ahmad Teeli[1*], Dr. Imran Mehraj Dar[2], Dr. Bilal Ahmad Sheikh[3]

[1]Assistant Professor GDC Anantnag*
[2,3]Lecturer GDC Anantnag J&K

Email: [3]bilalsheikhphd@gmail.com
Corresponding Email: [1]Catch2showkat@gmail.com*

Received: 19 August 2022 **Accepted:** 04 November 2022 **Published:** 06 December 2022

Abstract:** The banking industry has continued to use the buzzword "Financial Inclusion" over the past few years. The term is connected with expanding the spread of monetary administrations to the people who don't know about or who are not in that frame of mind to profit monetary administrations because of distant regions or absence of innovation and so forth. The recent reforms carried out in India are in line with the expansion and development of disadvantaged and poor groups. In this regard, PM Modi's slogan, "SABKA SAATH SABKA VIKAS," which aims for everyone's balanced development, is accurate. It won't be possible until corruption and the huge gap between the rich and the poor are reduced. Financial inclusion is about making financial services like banking and insurance available to everyone at reasonable prices. There are not many issues coming in that frame of mind of monetary consideration however it is certain that if some corrective measures are embraced by the specialists, then, at that point, monetary consideration can be accomplished in India without limit. In the end, this will accomplish the campaign's goal of inclusive growth and balanced development. Hence, in present study researcher had analyzed the secondary data from different sources and corresponding findings and suggestions are explained in finding and conclusion section.

***Keywords:** Financial Inclusion, Rural poor, Monetary administration and Monetary stratergy.*

1. INTRODUCTION

Financial Inclusion can be explained as “the process of ensuring access to financial services and timely and adequate credit, where needed by vulnerable group such as weaker sections and low-income groups at an affordable cost” (Rangarajan Committee, 2008). FI is necessary to have more comprehensive growth process and the mainstream financial service providers play a major part in fostering the inclusive growth process. FI helps in accelerating “economic growth and development” via creating job opportunities which ultimately impact the economic & social well-being of the people of the country. A comfortable and reasonable

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access to financial resources aid marginalized people & owners to small enterprises in generating income, direct their uneven cash inflows& outflows, spend in good business opportunities, managing elasticity to shocks and to come out of the vicious circle of poverty

Dimensions of Financial Inclusion

The chief aim of FI is to make sure the delivery of financial services & products which comprise of opening bank accounts, providing insurance services, access to credit at minimum cost, financial advisory services etc. But in India, FI, presently is seen as opening of saving banks accounts to all. But financial inclusion is a composite term with several dimensions. The main dimensions of FI as suggested by Shri Arun Jaitley in Annual Performance Review Meeting (2018) can be summarized as follows:

1. Access to Financial Services: It is explained as the capability of the persons to avail the facility of existing financial resources from FFI"s. This dimension is of the utmost important as there are number of barriers that stop the individuals from accessing the financial institutions that may include difficulty in opening bank accounts, physical proximity from banks, structural procedural formalities, financial illiteracy, language problems etc. This dimension may be measured from the information given by the providers of financial services that may include proportion of population with bank accounts, number of bank account deposits etc.

2. Quality of Financial Services: It estimates the range to which the present financial resources meet the demands and needs of the customers. The dimension covers the customers experience, his/her outlook and attitude towards the available financial services. This dimension measures the intensity& nature of the association amongst the customer & providers of financial resources as the need of all sections of the society is not uniform regarding monetary services. The data to measure this dimension can be collected from the demand side survey.

3. Usage of Financial Services: This measure includes the adequate usage of banking services. This is all about regularity and frequency of using these services and include the kind of facilities which are commonly utilized among individuals. The percentage of populace which has account in banks and not adequately using the banking services can be called as „marginally banked" people. These people may not be using the other banking services on a regular basis due to reasons that may include remoteness of banking outlets, lack of customized products that best suit to their needs, basic illiteracy etc

Part of Financial Intermediaries in FI

An "Access to Financial Services" is the capability of the individuals to use formal financial resources which includes timely credit, deposits, insurance service and other risk management services. Financial services may be provided by the range of financial intermediaries that may be the FFS providers or informal financial service providers. The difference between the two is based mainly upon whether there is a legal infrastructure that provide financial services and the protection available to the customers.

Formal Financial Service Providers (FFS)

These are the financial institutions which are certified by the Central Bank of India for providing financial services under lawful infrastructure along with ensuring protection to the investors. In general, these are the formal financial service providers in India:

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1. Scheduled Commercial Banks: It includes both private sector & public sector who offer a range of financial services amongst populace of India. These are the most common source of providing credit and financial services as there is a vast network of banks in India. It provides variety of services that includes saving and current accounts, deposit and insurance services, credit and debt counseling services, provide financial literacy etc.
2. Insurance Companies: These are the companies that bear risk by accumulating money from individuals and organizations to provide protection to them against certain losses such as theft, fire, accidents, illness, disability (full or partial) or death. Insurance companies help its clients by managing risk and preserving their wealth. These include NGO"s, Government Service Providers, Private Insurance Companies etc
3. Microfinance Institutions: These are the lenders or bankers who provide microfinance services such as loans, deposits, money transfers, insurance services, payment services, etc. The main role of these MFI"s in the economic development process is that it mainly serves the economically weaker section of the society.
4. SCARDB: The top-level rural development& agricultural bank in every state is called the "State Cooperative Agricultural and Rural Development Bank). Its main function is to promote the priority sector lending (Agriculture) and to reach to that section of the society which is mainly neglected by the traditional banking system. These banks also perform the function of Government transfer payments.
5. RRB's: These are the SCB"s that operate at local level in different states of India. The primary motive of these banks is to serve the "rural and semi urban" population with essential banking and other fiscal services. RRB"s also carry out some of the Government operations such as payment of remuneration to MNREGA workers, payment of pension etc. 6. Postal Banking: These are the financial institutions operated by post offices that take deposits from people and provide customers with access to a safe location to keep their money. The main aim behind setting up these banks are to promote the habit of savings among people. These banks provide payment, saving and transfer services, mainly in the rural areas of India.
6. Cooperative Banks: These are the institutions established on the cooperative basis and deal in ordinary banking business. These are generally not for profit organizations and are operated & controlled by its members. The structure of cooperative banks has been alienated in two sections: "Rural Cooperative Banks"& "Urban Cooperative Banks" to specifically fulfill the requirements of its both rural and urban customers. The members of the society are eligible to avail loan at lower interest rate and the surplus earnings are reallocated among the members.

Informal Financial Service Providers
These are the financial service providers providing financial services outward the Government administration and direction. They generally provide the services at an exorbitant rate of interest. Informal Service Providers can be broadly bifurcated into three categories:
1.Transactional Credit Suppliers: These are the credit suppliers for whom providing credit is a business transaction. This segment includes private money lenders, pawn brokers, traders etc.
2. Mutual Credit Suppliers: These are the credit suppliers for whom credit supply is a give and take process. It includes chit funds, credit unions, self-help groups credit societies etc.

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3. Personal Credit Suppliers: It includes those for whom credit supply is a personal deal that may be reciprocated in future. It includes the loan taken from relatives, friends, co-workers, neighbors etc.

Committees on Financial Inclusion

Dr. C Rangarajan Committee on FI

In 2006, GOI formed a working group to look into the matter of financial inclusion which was chaired by Dr. C. Rangarajan. The main recommendations of the committee included that the supply side of FI should be substantially improved to include more and more natives to the FFS, but it is also to be noted that many segments of the society have frail demand for financial amenities. Thus, to improve the status of financial inclusion in the country, the needs of the people demanding financial services must be taken care of by the policy makers. The main committee recommendations included:

• Setting up of NRFIP i.e. "National Rural Financial Inclusion Plan" at national level.

• Targets for commercial bank"s branches in rural, semi urban areas and RRB"s must be set up.

• Government of India should consider setting up of National Mission on FI (NaMFI) having spokesperson of all the associates for achieving universal financial inclusion.

• Setting up of two funds: ♣ A "Financial Inclusion Promotion & Development Fund" in association with NABARD to meet the expenditure of development and advancement intercession. ♣ FITF in association of NABARD for covering the cost of technology acquisition.

• Use of the services of NGO"s, MFI"s, SHG"s and other social organizations mediators provide banking and other financial services through BC and BF model.

• The SHG- bank Linkage Programme must be encouraged for providing financial services among marginal people in an endurable way.

• Subsidies provided under SGSY (Swarnajayanti Gram Swarojgar Yojana) need to be restructured

• Opening of specialized micro finance branches in urban areas exclusively catering for microfinance and SHG for catering the needs of urban poor.

• The remittance facility should be made electronic may be using the service like "instacash" in which a code may be given to the transferor and the recipient may receive the money from the chosen post office by showing the respective code.

Raghuram Rajan Committee on Financial Sector Reforms

In 2007, GO constituted a working group headed by Dr. Raghuram Rajan to propose next generation of financial sector reforms in India. The committee submitted its findings in the report titled "A Hundred Small Steps". The committee highlighted many concerns on the Indian Banking System. The main suggestions of the group included:

• The expression financial inclusion does not include providing credit only but also include providing wide range of banking and other financial services that includes saving bank account, insurance, remittance facility etc. An excessive provision of credit without

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generating livelihood opportunities would ultimately lead to over indebtedness and will not produce the desired results which are expected from financial inclusion initiatives.
The committee recommends the establishment of small banks to provide assets and liability products to the customers. The main basis behind in setting up these small banks is to reach out to poorer and marginalized individuals and local and small enterprises.

- Building sturdy linkages between large institutions &local entities would construct inclusive financial architecture and will bring current large financial institutions nearer to the underprivileged section. For achieving this phenomenon there are Business Correspondents structure that can combine scale economies and diversified products with the knowledge of local requirements and having stumpy cost transcend and can have a reach to the remotest areas of INDIA

The committee suggested to review legislations on Money Lending, 2007 to explore the alternatives by which banks and money lenders might work jointly as it impossible to completely wipe out the private money lending from the market.

- It is also advised by the committee to vigorously discover the means through which nontraditional organizations with widespread small cost network (NGO"s, post offices, kirana shops etc.) might be approached to offer financial services in a feasible mode as they have regular contacts with the excluded sector and can understand their requirements in a better ways.

3 Deepak Mohanty Committee on Medium -term Path on Financial Inclusion In 2015, RBI constituted the committee to look into the current policies on financial inclusion and to outline a "medium-term action plan "about credits, deposits, payments, insurance, pension and social benefit transfer. The key recommendations of the committee are as follow:

- Banks should make efforts to open more accounts for women with low income under "Sukanya Shiksha Scheme" for social benefit transmission by the Government.
- Greater reliance should be put on mobile technology so that „last mile" problem could be solved.
- For enhancing the individual"s disposable income, the Governments" social cash transfer should be augmented to put the nation on an endurable inclusion trail.
- Corporate should be stimulated to support SHG"s as piece of their communal task initiatives.
- Aadhar ought to be connected to every person"s credit A/C as a distinctive biometric modifier to ensure the firmness of the credit system and improved access.
- Unique identification of MSME"s be made mandatory and it should be shared with the credit bureaus.
- Universal crop insurance scheme should be introduced for MSME"s with an economic maximum of ` 2,00,000.

Dr. K.C. Chakrabarty -FI: Perspective & Issues

Deputy Governor of RBI, Dr. K.C. Chakrabarty in his speeches "Financial inclusion and banks – issues and perspective" (October, 2011), "Financial inclusion – a road India needs to travel" (September, 2011), "Financial Literacy and Consumer Protection" (April, 2012) and "Financial inclusion in India – journey so far and way Forward" (September, 2013), addressed issue of financial inclusion. The noteworthy points of his speeches are as follows:

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• He concluded that for any type of stability whether fiscal, political, social or economic, inclusive growth is an indispensable requirement. Comprehensive growth subsequently is mainly determined by financial inclusion and a comprehensive financial system.
• To overcome the issue of last mile problem, the use of Business Correspondent/ Business Facilitators be enhanced. He opined that BC model might not be economically feasible at the beginning owed to high transaction cost, the proper technology usage may aid in dropping this.
• He suggested to design tailor made banking services and products that exclusively fulfill the requirements of the poorer segment of society at an attractive price. He also addressed that cost of providing these specific products may be higher, it can be brought down by using ICT solutions. Use of mobile banking need to be exploited as it could aid in minimizing the rate of imparting these services.
• He is also suggested to train bank managers and frontline staffs along with BC‟s on the human banking side to ensure poor and marginalized are not propelled from banking and other financial services due to complex technology interface.
• Relevant provisions should be designed in bank‟s business model to look after the customers problems and complaints as he briefed his opinion as "The future lies with those who see the poor as their customers" as business for the poorer is more worthwhile than the wealthier section of the society.

3. Objectives of the Study

1. To study the initiatives taken by RBI and GOI for financial inclusion in India.
2. To assess the awareness regarding financial products and services amongst the rural areas in India.

Review of Literature

Financial Inclusion by Definition

World Bank (2016), "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". An easy access to transacting account is a primary pace in the direction of wide financial inclusion as it allows individuals to accumulate funds, send& accept payments. This A/C may provide an access to further financial resources and that is why making sure that public around the world could have contact to "Transaction A/C" is the main aim of World Bank Groups "Universal Financial Access 2020 Program". According to Chakrabarty (2011), "Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players". It Chapter 2 17 was recognized that NGO‟s/ NBFC‟s/ MFI‟s on their own cannot attain the aim of FI in India as banking services cannot be provided by these institutional players. He suggested using BC/ BF model to overcome the connectivity problem in the villages particularly. He concluded his speech by saying that in for serving thousands of financially excluded populaces we all need is "Technology with

Human Touch" i.e. using user friendly technology by the financial service providers so that more and more number of people can be included to the financial sector

G 20 (2010) described financial inclusion as "providing affordable and useful access to financial products and services to all individuals and businesses worldwide". FI might help in economic development and growth, generate more employment opportunities, lessen income inequality and would ultimately achieve fiscal stability. Planning Commission (2009), inferred that the phenomenon of financial inclusion does not include only providing credit facility but also includes making accessible the vast range of financial services & products that includes insurance & remittance service, saving bank A/C facility also. An excessive provision of credit without generating livelihood opportunities would ultimately lead to over indebtedness and will not produce the desired results which are expected from financial inclusion initiatives. Access of financial services to households include access to unforeseen event arrangement and creation of wealth. An access to plan for contingencies will help households to save for future that may include savings for retired life, insurable incidents and access to credit comprises loans for emergencies, consumption and housing loans. However, access to wealth creation comprises investments & savings based upon individuals" level of financial awareness and risk sensitivity.

Rangarajan Committee (2008), has defined FI as the "process of ensuring access to financial services and timely, adequate credit where needed, to vulnerable groups such as weaker sections and low income groups, at an affordable cost".

Financial Inclusion in Rural India Rajesh Barik & Sanjaya Kumar Lenka (2018) in their research paper " A discourse analysis of financial inclusion : post liberalisation mapping in rural and urban India" used PCA technique to create "Financial Inclusion Index" for calculating the usage of financial services and products by the urban and rural India over the period of 1991 to 2014. They concluded that urban rural financial inclusion gap was little for the duration of 1991 but over the period 2005-06 onwards, it started increasing due to the growth in multinational companies in urban India. They suggested that more inclusive policy measures must be undertaken by GOI and RBI to widen the financial sector outreach to the rustic areas of India to reduce the FI space amid urban & rural counterparts of India. Charan Singh & Gopal Naik (2017) in their working paper "Financial Inclusion in India: A Case Study of Gubbi" examined the impact of initiatives of GOI, RBI and NABARD towards achieving financial inclusion in India and they also identified the measures required for including the unbanked people beneath the ambit of financial inclusion. For this they took the sample size of 198 individuals from Gubbi taluk, Tumkur district including 148 farmers and 50 non farmers. They concluded that out of the total farmers 55 percent of them took loan from the banking system but out of them three fourth farmers wanted to take loan from private money lenders and three fifth wanted to take it from SHG"s as it was much easier from them to take loan from private sources than banks. The major reason behind it was found to be the distance of banks from their places. For the non-farmers sample only 55 percent of them had bank account and only 10 percent of them had taken any kind of loan from it. Lack of financial literacy attributed to this behavior among the sample respondents. They suggested the collaboration of post offices with banks which should provide the basic financial services as similar of banks to rural population. Dr. Manohar.V. Serrao, Dr. A.H. Sequeira& Dr. K.V.M Varambally (2016) in their paper "Impact of Financial Inclusion on the

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Socio-Economic Status of Rural and Urban Households of vulnerable sections in Karnataka" suggested a three-stage model to build the economic structure of the country more inclusive. At stage I they suggested to improve the absorptive capacity of the households by improving primary education, basic health and by providing vocational training to the members of the households. They focussed on improving the FL among household members using Government Sponsored campaigns and banking network. At stage II they emphasised on providing basic financial services to the BPL households to increase the confidence of the people in banking system and at the same time to increase the business opportunity of banking network. At the last stage they focussed on drawing innovative strategies to enhance the reach of banking facilities. K. Hema Divya (2013), attempted to examine the FI status of daily wage earners in the state of Andhra Pradesh. She tried to explore whether the low-income group was able to use financial services or not for which she took the responses of 210 daily wage earners from the Tenali town in Guntur district of Andhra Pradesh. She concluded that there is a lack of financial awareness among the people, so at first place there is a need to raise the financial literacy level of these people and secondly there is also a need to create some customized monetary products that specifically fulfils the need of this segment. Rachna Tejani (2011) in her research paper "Financial Inclusion and performance of Rural Cooperative Banks in Gujarat" examined the satisfaction level of rural people towards the banking services in Gujarat and assessed the performance of Cooperative and RRB‟s operating in the rural areas of Gujarat. The sample size of 200 respondents was taken from Ambasam, Jotana and Khadalpur village of Gujarat through a structured Questionnaire. The major findings could be concluded as people who had accounts in the bank mainly use the services of depositing money, withdrawing money and entries in the passbook. People avoided taking loans from banks because of extensive official procedures and persistence of collateral. Rural people had average knowledge regarding various banking services but didn‟t have potential to use them. She also concluded that rural inclusion could be increased through different bankable services like low cost loans to BPL families, providing micro insurance service with the bank account, reducing legal procedures and persistence of security while sanctioning loans to raise the figure of people using the bank services. Vani Kamath in her thesis (2010), "Finding Usage in access to banking & scope for microfinance in Gulbarga District, Karnataka- A study of financial inclusion on Below Poverty Line Families" identified the nature and size of financial inclusion in the city of Gulbarga and also analysed the socio- economic impact of financial inclusion. She evidently proved that money may be a crucial issue for many households to remove themselves out of the poverty but just opening a bank A/C may not solve this purpose completely. The demands of the rural people must be identified, and then cost-effective strategies should be made to enhance

Financial Inclusion and Economic Development

J.P. Yadav, Abhishek Sharma & Meghna Meena (2016) in their research paper "Impact of financial inclusion in rural India" advised that GOI and RBI should frame certain policies to extend the outreach of financial sector towards the unbanked section of the society via its vast banking structure. Simultaneously, banks should also try to devise strategies and plans that may help in reducing transaction cost to vigorously participate in the course of financial inclusion treating it as opportunity as well as the part of corporate social responsibility.

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World Bank research report on "Access to Finance" (2008), states that, "Financial access can have direct and indirect benefits on small firms and underprivileged households, makes them additional competent to get benefit of investment opportunities and guards them against risks". World Bank Report (2005) explains that the succession of economic access, growth and earnings dynamics of diverse generations are directly related. An access to finance effects not just the superiority of resource distribution in the nation but also improves the relative financial opportunities of persons of poorer households.

Banking Sector's Role in FI Md Masroor Alam (2017) in his theses "Financial Inclusion and inclusive growth through Microfinance in India an Evaluation" examined the virtual effectiveness of micro finance as a source of FI & inclusive growth of susceptible stream of the community. Alongside, it also tinted the role of banking division in achieving FI. The author revealed that geographical spread of microfinance institutions is not uniform in the different states of the country. Financial Exclusion was found to be present in almost all the regions of the country and the financial exclusion gap between urban and rural areas was found to be very high. It was also concluded that microfinance was playing major role in empowering women and reducing poverty from poorer segment of the society. For increasing the pace of FI among diverse districts of the country, the author suggested of launching further bank twigs in both urban and rural areas, promoting zero balance or No- frill A/C"s, increased role of GOI and NGO"s in prompting SHG"s –bank linkage programmes and utilizing vast network of post offices for including backward regions and people from rural counterparts to come under the ambit of FFS of the country. Raihanath. MP & K.B. Pavithran (2014) in their research paper "Role of Commercial Banks in the Financial Inclusion Programme" have mentioned that the spreading FL among excluded and credit counseling are the important instruments through which commercial banks can expand the outreach of financial sector to include the unprivileged and marginalized in the formal financial system. Organizing financial awareness camps, financial literacy week and seminars should come under the scope of Chapter 2 33 commercial banks and at the same time credit counseling centers of commercial banks or the credit counsel desk at each branch may help in increasing the scale of FI in India. Paramjeet Kaur (2014) in her research paper "A study on financial inclusion - role of Indian banks in implementing a scalable and sustainable financial inclusion strategy" has identified that the banking outreach over the years have tremendously increased as figure of branches of SCB"s have gone up in the past decade. But there are some challenges that are faced by the banking sector that include soaring transaction cost in remote areas due to small ticket transaction, illiteracy among poor, language problem etc. slow down the process of financial inclusion in India. Use of ICT based solutions that include mobile banking, smart cards & creating catalog for "risk management" are some of the solutions to tackle the challenges. Ravikumar (n.d.) in his research paper "Assessing role of banking sector in financial inclusion process in India" assessed the job of banks in the process of FI from diverse viewpoints including branch dispersion, ATM dispersion, population per branch, deposits and credits of scheduled commercial banks and cooperative banks in India. His study discovered that banks are the chief driver of "financial inclusion growth" in India and concluded that high poverty ratios & income inequalities result into financial exclusion in India.

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The common causes for the exclusion of rural population that could be identified from literature review is the lack of access of commercial banks, illiteracy among rural population, high transaction cost and above all low-income level that make it difficult to save. As there is not much known about factors of financial awareness among rural areas in Jammu and Kashmir and then examining their level of awareness with respect to factors extracted. This study is a modest effort to plug the gap in the literature. The problems in implementation of Government and RBI schemes that are faced by the scheduled commercial banks will also be examined. This will be a worthy study to aid administrators & academicians to develop suitable schemes in achieving the target of complete FI in the country

2. RESEARCH METHODOLOGY

The current study is an attempt to analyze available reviews related to **financial inclusion in India** their management and management processes and to evaluate their performance and challenges to future growth. Objective will be achieved using "secondary data" which is compiled from the Annual Reports of RBI, Publication of OECD, Economic Survey of India, GOI, Report on Financial Inclusion by Planning Commission of India, 2009, Publications of NABARD and committee reports on financial inclusion.

Findings

1. The People of India need to be taught more about financial services and how to get them cheaply.
2. The primary causes of everyone's educational failures ought to be the primary focus of the government.
3. In order to meet the needs of individuals from a variety of backgrounds, the banks ought to take measures to increase innovation in banking products for various organizational structures.
4.The public's trust in banks and other financial institutions must be raised by the government. People have been dissuaded from using the financial services provided by banks and the insurance industry as a result of previous frauds that took place in the banking industry. Instead, they have chosen to keep their money with themselves, and these people are still excluded.
5. Bank employees should go to places where people don't know about banking and encourage them to open bank accounts so they can get access to basic financial services.

3. CONCLUSION

The government has paid close attention to financial inclusion over the past few years. Through PM Modi's implementation of the Jan Dhan Yojna, approximately 310 million people were brought into the formal banking system over the course of four years (2014-2018).A few different measures are taken on and they are functioning admirably. But the fact of the matter is that the government still faces a number of obstacles that need to be handled carefully in order to achieve balanced development and inclusive growth. For accomplishing exhaustive monetary consideration, the initial step is to accomplish credit incorporation for the burdened and weak segments of our general public. In the financial markets, the state

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must have a significant role to play. Both the market and the government as institutions have their limitations in developing nations; however, it is necessary to design government policies that are mindful of those limitations.

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ISSN: 2799-1059
Vol : 03 , No. 01 , Dec 2022 - Jan 2023
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DOI: https://doi.org/10.55529/jcfmbs.31.5.16

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