The Impact of Government Schemes and Fintech in Financial Inclusion

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Abstract
Access to and use of formal financial services by individuals and enterprises is known as financial inclusion, and it has grown to be a crucial issue in many nations. Various measures have been implemented by governments and financial entities. Programs aimed at improving financial inclusion, especially for the underprivileged and unbanked population. The use of technology to deliver financial services, or fintech, has also come to light as a possible way to improve financial inclusion. The study's objectives are to determine whether these government programs and fintech are beneficial in promoting financial inclusion, to pinpoint the elements that make them successful or unsuccessful, and to make policy recommendations to maximize their influence. This subject is pertinent given the state of the world economy today, where digital financial services are more crucial than ever—particularly in the wake of the COVID-19 pandemic. The study's emphasis on the technological components of banking is particularly noteworthy since it is commonly known that FinTech and technology play a major role in advancing financial inclusion. In developing nations with high rates of mobile phone use, mobile banking has become an increasingly potent instrument for promoting financial inclusion. People who reside in distant places without access to physical bank offices will find mobile banking extremely useful as it enables them to access banking services via their phones. Additionally, mobile banking makes it possible for users to do transactions swiftly and efficiently without having to travel far.

Keywords: Financial Inclusion, Fintech, Government Programs, Mobile Banking, Digital Financial Services

Introduction

For most people, financial services are essential to their daily life. People get paid and get their bills through their bank accounts. They can buy homes and put money down for retirement thanks to products like mortgages and pensions. Everyone agrees that one of the most important indicators of society's development and well-being is financial inclusion. Financial inclusion has been the focus of national and international efforts for a long time. It involves more than just ensuring that people have access to financial services and products. Additionally, it's about giving people the skills and knowledge they need to use these goods and services to improve their lives (demand side); additionally, it's about matching people's needs with financial products and services, expanding their options, and raising consumer awareness and comprehension of financial products (supply side). It is one of the top concerns of international governments. An economy cannot function without financial services because they allow individuals and companies to save, invest, and manage risk.

According to the World Bank, “financial inclusion” refers to “access to affordable and useful financial products and financial services that meet the needs of individuals and businesses, such as transactions, payments, saving, credit, insurance, etc. Delivered in a responsible and sustainable manner.” A transaction account acts as a “gateway” for other financial services. Financial access makes everyday life easier, and encourages people to use financial services like credit and insurance to start and grow businesses, to invest in education and health, to manage risk, and to weather financial shocks – all of which contribute to the overall quality of their lives. Acknowledging the need for more inclusive economic development by policy makers is meant to shift the focus to include people who are far too often excluded and marginalized through the lens of development, both geographically economic and socially.

Study Aims

This study aims to investigate and analyze the impact of government schemes and financial technology (fintech) on promoting financial inclusion. The primary objectives include assessing the effectiveness of various government initiatives in enhancing access to financial services, evaluating the role of fintech solutions in bridging gaps in financial inclusion, and identifying synergies between government policies and technological advancements. Additionally, the study seeks to understand the challenges and opportunities associated with the integration of government schemes and fintech in achieving broader financial inclusivity. Through comprehensive research and analysis, the study aims to provide valuable insights that can inform policymakers, financial institutions, and fintech providers in optimizing strategies for enhanced financial inclusion.

Objective

- To evaluate the impact of PMJDY and APY on financial inclusion in India by identifying the increase in access to financial services and products among the unbanked population.
- To study the role of Mobile Banking in financial inclusion.
- To know the bank account holding and PMJDY among low-income individuals.
- To study the frequency of mobile banking usage among low-income individuals.
- To identify the usage and satisfaction of Mobile Banking among low-income individuals.

Hypothesis

- Hypothesis (H0): Despite the implementation of the PMJDY scheme, there is no significant improvement in the proportion of the population with PMJDY accounts.
- Hypothesis (H1): The PMJDY scheme has led to a significant increase in the proportion of the population with PMJDY accounts, indicating its effectiveness in promoting financial inclusion.
- Hypothesis (H0): There is no significant relationship between the method of using mobile banking (Bank Application, BHIM, etc.) and the frequency of usage.
- Hypothesis (H1): The method of using mobile banking significantly influences the frequency of usage, suggesting that certain methods are more conducive to increased usage than others, thereby impacting financial inclusion positively.

Literature Review

B. Del Briob, and Mery Luz Oscanoa-Victorious (2019) Explore the impact of women’s financial inclusion on inclusive economic growth through women’s inclusion in the financial system as the gap between women and men narrows, improving both physical and social well-being. In this study, we conduct an instrumental variable analysis on 91 countries, including both developed and emerging economies, using data from Global Findex (2015) and the World Bank Data a bank.

The results effectively support the notion that greater financial inclusion, as measured by access to bank accounts and access to credit cards, positively impacts economic growth.

Sethi, D., & Sethy, S. K. (2018) Investigate the connection between India's economic expansion and financial inclusion (FI). A multidimensional time-varying index is suggested as the design, methodology, and approach to measure FI, and it is modelled after the Human Development Index. Using both the nonlinear ARDL approach and the autoregressive distributed lag (ARDL) approach to co-integration, the long-term relationship between FI and economic growth is investigated. The Toda–Yamamoto–Granger causality test is also used to examine the direction of causality. Results The long-term correlation between FI and economic growth for India is validated using the linear co-integration test. Economic growth is positively impacted by improvements in financial services on both the supply and demand sides. These findings imply that increasing FI's coverage can help India achieve long-term economic growth.

Lokesh; Bakhshi, and Priti (2018) Aims to understand and assess the financial literacy, financial inclusion, and awareness levels of the common masses in Rajasthan, India. The authors have used a structured non-disguised questionnaire and probability cluster sampling methodology to collect data from 1,205 residents of Rajasthan as descriptive statistics. Thirty clusters were selected for this purpose with a sample size ranging from 2 to 20 in each cluster. The findings reveal that most of the population in Rajasthan still trusts banks more than any other financial institution and treats banks as the safest option to save their money. The study also focuses on the kind of training interventions required in Rajasthan for financial literacy.

Paramjit Sujlana and Chhavi Kiran (2018) Made attempts to provide an overview of the status of financial inclusion in India in past few years. This study was concerned with only one indicator of financial inclusion and that is branch penetration which is in the progressive stage. But certain efforts toward inclusive growth are still nascent stage and need to be given a concrete shape with the collaborative effort of the Government of India along with citizens of the nation. Emphasizing private banks should increase their customer base to a great extent by tapping the rural banking sector. Deriving future research towards financial indicators like credit deposit ratio, technology-enabled services, etc.

Jha, B., & Bakhshi, P. (2018) endorsed that Financial Inclusion is the catalyst for inclusive growth, and sustaining this inclusive growth may result in social inclusion. As it is often said that Growth and Sustainable Development cannot go hand in hand and through this article, they studied the growth in Financial Inclusion and whether this growth is sustainable or not. The study mainly focuses on quantitative inclusion vs. social inclusion for sustainable purposes using secondary data analysis on key parameters of Financial Inclusion for the past five years are compiled and analyzed using average, percentage, CAGR, trend analysis i.e., using quantitative as well as qualitative methodologies which assess financial inclusion on parameters like Gender, number of Accounts under PMJDY, State-wise penetration before demonetization and after demonetization. And found sudden growth in Financial Inclusion due to demonetization but the growth rate was not sustainable and was there only for a limited period post demonetization. The study also covers the factors that can stimulate Financial Inclusion including Technology, Aadhar, and Mobile penetration. The study also covers the role of Financial Institutions, SHGs, SBLC, CBOs, NGOs, etc in Financial Inclusion.

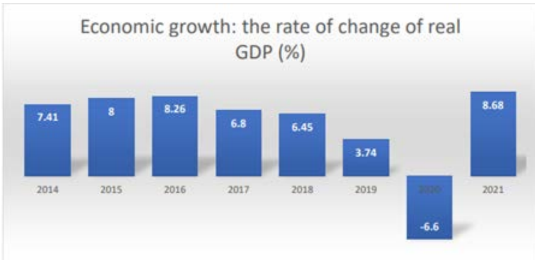
Methodology

The purpose of the study is to investigate how fintech and government initiatives contribute to financial inclusion. Since 2014, the researcher's primary areas of focus have been Pradhan Mantri and Atal Pension Plan and Jan Dhan Yojana India's principal initiatives for financial inclusion are noteworthy since these programs have been crucial in advancing financial inclusion in the nation. A government initiative called the Pradhan Mantri Jan Dhan Yojana aims to give those without access to formal financial services basic banking services. A debit card, an overdraft facility, a zero-balance savings account, and a Rs. 1 lakh insurance cover are all given to participants in this initiative. In contrast, the Atal Pension Scheme offers pension benefits to employees in the unorganized sector beyond the age of sixty. These programs have contributed to the increased use of formal financial services in both urban and rural locations, as well as aiding in the general public's promotion of financial literacy.

Economic Growth: The Rate of Change of Real GDP

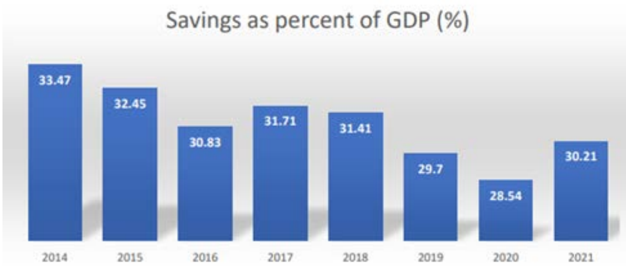
The real GDP's rate of change, which is a key indicator of economic growth, can heavily influence financial inclusion. The provision of accessible and reasonably priced financial services to people and enterprises who have historically been undeserved by the official financial sector.

Economic expansion frequently results in higher income levels and the creation of jobs, which can then lead to easier access to financial services like credit, banking, and insurance. This improved accessibility can support economic growth and aid in the reduction of poverty and inequality.



Savings as a Percent of GDP

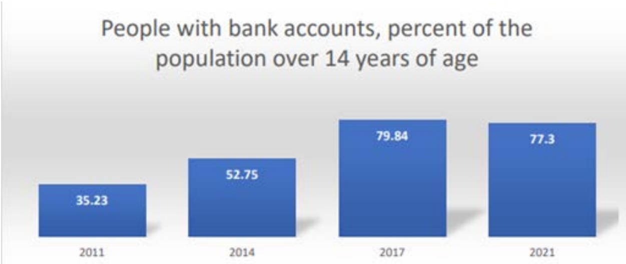
The proportion of GDP that is saved can serve as a gauge for financial inclusion. The percentage of a nation's revenue that is set aside for savings by its citizens, companies, and government is called the savings rate. High savings rates may be a sign that a sizable segment of the populace has access to financial services and is making use of them for long-term savings and investments.



People with Bank Accounts, A Percent of the Population Over 14 Years of Age

One common metric for measuring financial inclusion is the proportion of people with bank accounts. Access to bank accounts, a basic financial service, can offer people and companies several advantages, including a secure location to keep funds, credit availability, and the capacity to send and receive electronic payments.

Access to bank accounts by a sizable portion of the populace may indicate a more inclusive financial system. It shows that a wide spectrum of consumers, even those with low incomes and those residing in isolated or rural places, may be reached by financial institutions. Additionally, it implies that financial institutions are offering easily accessible and reasonably priced goods and services to cater to a wide range of clientele.



Percent of People Aged 15+ Have a Credit Card

Because it sheds light on the population's access to credit and financial services, the percentage of adults over the age of 15 who own a credit card is a crucial indication of financial inclusion. In order to manage finances, establish credit, and obtain credit for investments or emergencies, a credit card can be a useful tool.

Year	Percent of People Aged 15+ who Have a Credit Card
2011	1.77
2014	4.18
2017	3
2021	4.62

Source: The World Bank

Percent of People Aged 15+ Have a Debit Card

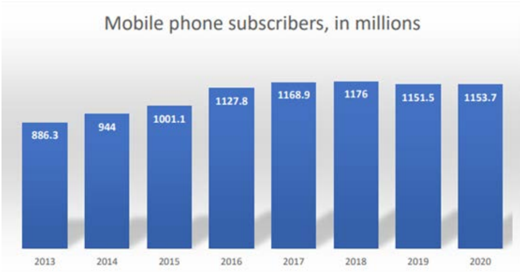
Having a debit card as a percentage of people over 15 is another crucial measure of financial inclusion, especially in India. Debit cards have been essential to India's recent major advancements in the country's financial inclusion movement. Since debit cards allow users to access their bank accounts and conduct transactions without physically visiting a branch, they are a vital instrument for financial inclusion.

Year	Percent of People Aged 15+ Who Have a Debit Card
2011	8.4
2014	22.07
2017	32.72
2021	27.02

Source: The World Bank

Mobile Phone Subscribers, in Millions

In developing nations where access to traditional financial services is limited, mobile phone subscribers are especially important in fostering financial inclusion. With the widespread use of mobile phones, underserved populations can now access financial services at a lower cost. By enabling people to access financial services even in remote locations, the use of mobile phones for financial transactions has the potential to expand financial inclusion.

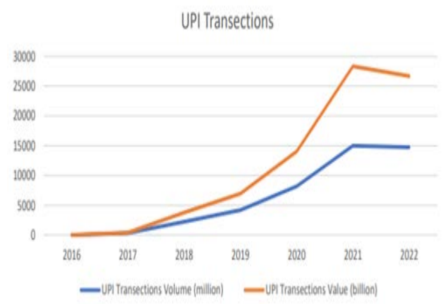


Fintech (Digital Payment)

The nation's digital payments development has been significantly aided by the central bank. In addition, RBI serves as a model for how the central bank collaborates with private businesses and is the backbone of the nation's rapidly expanding digital payments network. In India, digital payments have increased at an average yearly rate of 50% throughout the last five years. India is among the nations with the greatest rates of growth in the world, but the Unified Payments Interface (UPI), a special real-time mobile system, is expanding at an even faster rate-roughly 160% annually. The number of trades more than doubled to five. From a year earlier, the number of participating banks increased by 44% to 330 in June. During the same time frame, the value nearly doubled.

In 2016, the UPI system was introduced shortly before RBI Governor Raghuram Rajan's term came to an end. Large denominations were taken out of circulation at the end of the same year, which led to a flurry of demonetization initiatives. In response to the nation's intricate payment regulations and documentation, UPI was developed. The idea behind enabling several bank accounts for personal and business use on the same mobile platform is to make money transfers safer and easier. It develops swiftly.

UPI Transaction in India



Bank Name / Type	PMJDY: Number of Beneficiaries at rural/semiurban centre bank branches									
	Dec-14	Mar-15	Mar-16	17-Mar	18-Mar	19-Mar	20-Mar	21-Mar	22-Mar	23-Feb
Public Sector Banks	45119636	61755429	94292464	123374140	136690128	151884115	164646671	205405148	221260066	237400000
Regional Rural Banks	15717860	21456966	32571057	39797310	42508133	50253578	54676889	66167545	71595095	77100000
Private Sector Banks	1511376	3559942	4843513	5492034	5997845	6858752	6980142	6917739	7038779	6900000
Total	62348872	86772337	131707034	168663484	185196106	208996445	226303702	278490432	299893940	321400000

Bank Name / Type	PMJDY: Number of Beneficiaries at urban metro centre bank branches									
	Dec-14	Mar-15	Mar-16	17-Mar	18-Mar	19-Mar	20-Mar	21-Mar	22-Mar	23-Feb
Public Sector Banks	37971427	52249580	74165273	102773484	117492446	128477431	140541209	128493082	132862975	141400000
Regional Rural Banks	2792011	3864198	5357511	6585945	7844862	9640111	10850037	9405353	10743050	12500000
Private Sector Banks	1370159	2481925	3045656	3655358	3905715	5548243	5585013	5616777	5958186	6700000
Grand Total	42133597	58595703	82568440	113014787	129243023	143665785	156976259	143515212	149564211	160600000

Role of PMJDY in Financial Inclusion

The government of India started the Pradhan Mantri Jan Dhan Yojana (PMJDY)12, a financial inclusion initiative, in 2014 with the goal of giving all Indian households access to financial services. Because the programme makes it simpler for citizens to open bank accounts, obtain credit, insurance, and pension services, as well as conduct digital transactions, it has significantly contributed to the nation's drive towards financial inclusion. Here are a few examples of how PMJDY has helped India achieve financial inclusion:

- Better access to banking services: PMJDY has contributed to a rise in the number of bank account holders, particularly among individuals who were underbanked or unbanked in the past. As a result, they can now take use of the formal financial system and obtain a variety of financial services.
- Encouraged saves and decreased dependency on unofficial channels: By giving people access to interest-bearing accounts, PMJDY has encouraged saving and helped to decrease reliance on unofficial methods of financing like moneylenders.
- Better financial literacy: By encouraging people to use digital banking services and giving them advice on how to handle their money wisely, PMJDY has also contributed to a population with better financial literacy.
- Made credit accessible: Prior to PMJDY, it was challenging for many individuals without a credit history or collateral to obtain credit from official financial institutions.

Atal Pension Yojana (APY)

The government of India introduced the Atal Pension Yojana (APY) in 2015 as a pension programme to give workers in the unorganised sector a minimum guaranteed income. It attempts to encourage the less fortunate segments of society to save for retirement. By encouraging people who do not have access to official pension schemes to save for retirement, the APY plays a crucial role in financial inclusion. It is intended for workers in the unorganised sector, including gardeners, maids, drivers, and those in similar occupations who usually do not have access to official pension plans.

By extending the pension plan's reach to the unorganised sector, the APY has aided in the advancement of financial inclusion. Additionally, it has made it possible for workers in the unorganised sector to save for retirement, something that was not previously allowed. The programme raises the standard of living and boosts the nation's economy by giving unorganised sector workers a sense of security and financial stability.

Findings

The researcher collected data from various sources like RBI, IBEF, World Bank websites, Global Findex, journals, Website data etc.

- The first findings suggest that despite the PMJDY scheme's efforts, a significant proportion of the population still does not have a PMJDY account.
- The second test using factor analysis suggests that the eight variables related to reasons for using mobile banking can be meaningfully reduced to two components: convenience/ease of use and cost-effectiveness/security.
- The third test using chi-square indicate that there is a significant relationship between the method of using mobile banking through Bank Application, BHIM, and all the above, and the frequency of usage.
- The fourth test using ANOVA suggests that users may have varying degrees of satisfaction when it comes to the security of their financial information when using mobile banking. Mobile banking providers need to focus on improving their security measures to increase user satisfaction in this area.
- The fifth test using paired sample t-test results indicate a significant difference in the number of beneficiaries or growth between rural and urban areas of the PMJDY scheme. The mean difference between the two groups is -78989533.50, with a standard deviation of 50771393.24, and a p-value of .001.
- The sixth test using two-tailed t-test decided that there is a significant difference between the mean number of APY enrolments of Public Sector Banks in 2016 and 2021.

The t-statistic obtained from the test was -3.377, which is greater than the critical value of t (±1.96) for a significance level of 0.05 and degrees of freedom of (n1 + n2 - 2). This suggests that the difference between the mean number of APY enrolments for Public Sector Banks in 2016 and 2021 is statistically significant. Furthermore, the negative value of the t-statistic indicates that there is a decrease in the mean number of APY enrolments from 2020 to 2021. Therefore, the results suggest that there has been a decline in the number of APY enrolments for Public Sector Banks from 2020 to 2021.

India's population grew by 7.7% between 2014 and 2021, continuing its trend of steady increase over time. The percentage changes in a nation's population can have a big impact on its social and economic growth, particularly the degree of financial inclusion. A high demand for financial services and goods may be indicated by a large population, which may motivate financial institutions to grow and provide more easily available and reasonably priced services. Therefore, in order to completely comprehend the extent of financial inclusion in India, it is imperative to take into account additional aspects including income distribution, literacy rates, access to technology, and the regulatory environment. Government initiatives are therefore in place to improve financial inclusion. The possibility for financial institutions to broaden their reach and penetrate underserved communities is provided by the notable disparity between the supply and demand for financial services.

Conclusion

In conclusion, the study underscores the pivotal roles of government schemes, namely Pradhan Mantri Jan Dhan Yojana (PMJDY) and Atal Pension Scheme (APY), along with the widespread adoption of mobile banking, in advancing financial inclusion in India. PMJDY has proven successful in extending financial services to diverse geographic areas, aiding communities during the COVID-19 pandemic. Similarly, APY's increasing enrolments across banks demonstrate progress in pension coverage for unorganized sectors. The rising prevalence of mobile banking is contributing significantly to reaching underserved populations. Despite these achievements, a substantial gap remains, particularly among lower-income and less-educated individuals. Ongoing efforts should focus on enhancing financial literacy and expanding formal financial services to achieve comprehensive financial inclusion. Future research could delve into the impact of the COVID-19 pandemic on financial inclusion, factors influencing PMJDY and APY uptake, the influence of mobile banking on underserved populations, the effectiveness of financial literacy programs, and the regulatory environment's role in fostering competition and innovation in the financial sector. The study's hypotheses confirm significant distinctions in variables related to financial inclusion, emphasizing the need for continuous efforts to address gaps and promote inclusive financial practices.

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