UNDERSTANDING OF FINANCIAL INCLUSION AND FINANCIAL STABILITY CONCEPTUALLY

Deepika Khanijo*

Open Scholar, Department of Commerce, Jind, Haryana, India

***Email ID**: khanijod@gmail.com*

Accepted: 14.04.2023 **Published**: 27.04.2023

Keywords: Financial Stability, Economic Development, Financial Inclusion, Poverty.

Abstract

Most developing countries today are making strides toward the ultimate objective of integrating financial inclusion into established institutions and culture. As time goes on, more and more people will notice this. Indeed, this is seen by everyone with eyes. This is done so that people in lower-income and otherwise disadvantaged groups in society can benefit from the policies that are put in place. As a direct consequence, this will make it feasible to preserve the economic budgetary equilibrium. Whether financial inclusion and financial stability are interdependent or independent occurrences, and which of these notions is more related to the attainment of higher economic growth, are the major questions that need to be answered here. Which of these theories also has the strongest link to a more prosperous future? Furthermore, which of these concepts has the most direct influence on the steps necessary to reach a more advanced stage of economic development? To examine the good and bad consequences that financial inclusion has on the attainment of financial stability, it is possible to focus on both positive and negative elements, and to do so within the same statement. This can be done to learn more about the potential benefits and drawbacks of financial inclusion in the pursuit of financial security. One possible perspective allows for equal weight to be given to the situation's advantages and disadvantages. Therefore, the major focus of this research paper will be on the many facets of financial inclusion and financial stability in general, as well as the importance of these themes in promoting the growth and development of the national economy. That is to say, this will be the paper's central argument.

Paper Identification

**Corresponding Author*

© IJRTS Takshila Foundation, Deepika Khanijo, All Rights Reserved.

Financial Inclusion – Concept and Meaning

"Financial inclusion" refers to the process of providing people from underserved communities with reasonable access to basic financial services. To broaden the population's access to banking and other financial services is a top priority. One of the reasons for recent improvement is that the Central Government of the country and the Reserve Bank of India (RBI) have been increasing their efforts to attain this aim. There are few more important national goals than achieving this one. Recent decades have seen significant progress achieved by the Reserve Bank of India and the government of India toward the goal of increasing access to financial services. These advancements have taken place throughout the last several decades. The nationalisation of commercial banks; the expansion of scheduled commercial bank branches; the creation of cooperative banks and regional rural banks; the implementation of mandate priority sector lending; the lead bank scheme; the idea of self-help groups; the introduction of zero-balance accounts for commercial banks; and the creation of zero-balance accounts for cooperativ The Banking Services and Benefits Board (BSBD) examines banking procedures; etc. The term "financial inclusion" describes a factor that is crucial for all countries still considered to be in the "developing" stage of their national economy. The Reserve Bank of India (RBI) has made it a priority to expand its outreach to economically poor areas and groups of people as part of its core policy objectives, with the ultimate goal of bringing them into the formal financial system.

The Reserve Bank of India (RBI), the nation's central bank, plays a pivotal role in ensuring that all sectors of the economy have access to the most beneficial financing choices available at any given time. The RBI is tasked with this massively significant duty. The Reserve Bank of India (RBI) is now in charge of policing the banking sector as a whole and maintaining macroeconomic stability. An enormous toolkit of financial instruments and computer programmes facilitates this. The Reserve Bank of India (RBI) operates with a monetary policy that is intrinsically linked to both the country's overall financial stability and its level of financial inclusion. The establishment and maintenance of financial balance must be a key goal of monetary policy, and it must be pursued with vigour. To that end, the Reserve Bank of India (RBI) has lately enacted a number of policy initiatives and other monetary measures to promote financial stability across the country and expand access to financial services for all individuals. The Reserve Bank of India (RBI) has lately implemented a number of policy initiatives and other monetary measures, all of which relate to the aforementioned goals. These goals are new, and the RBI adopted them because of their novelty. The financial system in India is stable and well-established, contributing to the expansion and improvement of the Indian economy.

Importance and Potential of Financial Inclusion in India

It is widely believed that India's economy is now one of those in a time of transformation. Poverty, high unemployment rates, and economic imbalance are all problems that may arise in a market like this one. Here are a couple illustrations, but that's all I have time for. These are only few instances of the common features and issues that may be faced; additional, comparable aspects and challenges, such as a lack of sufficient infrastructural facilities, unequal funding, and other problems of a similar nature, are also possible. Successful farming is crucial to the health of the economy. It is by far the most significant single factor contributing to the economy as a whole. On the other hand, the agricultural sector of the economy is struggling under the combined effects of a wide range of distinct economic issues and obstacles. All decisions and activities involving the economy should be based on and contribute to the development and upkeep of trustworthy financial practises. There is a greater requirement for a reasonable supply of funding now that it is inadequate in vital sectors of the economy. The reason for this is the increased interest in it. This is because there is an insufficiency of reasonable financial resources. When resources are not allocated equitably, it hurts the actual economy. The second benefit of financial inclusion is that it helps to diversify the financial system's resource base by fostering a culture of saving among a sizable portion of the population living in rural regions with low per capita income. This is achieved by extending financial services to those who would not have had them otherwise, so significantly aiding the process of economic expansion.

While this is happening, the possibility of financial inclusion grows, which is good for the welfare of underprivileged groups already existing in the community since it enhances their access to financial resources. The number of individuals who really have access to financial resources is far lower than the total number of people who actually require such resources. It's not only that agricultural and related economic activities suffer from a lack of funding, though; the sector as a whole is struggling to make ends meet. A large potential for monetary growth exists in tandem with the enhancement of neglected parts of the economy, and this prospect should not be discounted. The national government, state governments, the Reserve Bank of India (RBI), and RBI's monetary applications are all working toward the same goal: enhancing the living conditions of the country's most marginalised populations. The effort is now being led by the country's central government.

Those at the bottom of the economic ladder—farmers, factory workers, those without land, marginal farmers, and others—were a particular target of the "financial inclusion" movement. The goal of promoting financial inclusiveness motivated this action. due of the widespread "culture of money lenders," who make formal credit and supply of funds easier to get for individuals. Due to the prevalent nature of this society, formal credit and access to funds are readily available to those who seek them out. These indicators add up to a conclusion that the potential for expanding financial access in India is huge, and that there is already a lot of pent-up demand for it.

Literature Review

Tarun Gautam and Kapil Garg (2014) Said that Purpose of keeping the gap between the affluent and the poor, the banking system's provision of financial inclusion is an essential component. As a result, the function of the bank is significant. According to the findings of this research report, they need to overcome the root problem in our system and provide assistance to the information technology sector. This sector is attempting to reach account holders from lower socioeconomic classes, increase the accessibility of banking activities, as well as increase savings and increase economic awareness. According to the findings of the study, there is an increased requirement for financial inclusion due to the fact that the largest class of society is excluded.

K.N.V Patch (2014) Some of the difficulties being experienced by the Indian economy are described. Microfinance plays a crucial role in explaining the high technology, low-cost options available to small business units (SSI's), small and marginal farmers, micro and small enterprises, and other unorganised sector businesses. In his study, he defines small finance bank and demonstrates its significance in promoting financial inclusion. In addition to discussing the benefits of microfinance for access to credit, he also explains the role that savings plays in this field. Regardless of whether microfinance issues are more prevalent in rural or urban areas, there is still a significant need for this type of funding.

Kalpana Mandal (2013). The main goal of the banking business is to supply many financial services to customers. Additionally, in the current period, the entire century and the entire banking system of the nation must consider how to expand the expansion of financial inclusion and how to obtain financial stability inside the nation. Doing so is necessary if we are to fulfil the expectations of the present. The financial services sector views this as their top priority. In order to understand the relevance of promoting financial inclusion and stability, the Reserve Bank of India (RBI) makes an effort. Therefore, the Reserve Bank of India (RBI) has put its attention in recent years on core issues. Assuring one's financial stability is a key component of a more inclusive financial landscape. That's why the Reserve Bank of India (RBI) set up 15 separate Banking Ombudsman Schemes, each of which is responsible for a certain region of India (including the country's 33 states and 7 union territories).

M. Sreeramula (N.D) Its RBI working paper series stresses the importance of broadening access to banking services for the sake of financial security in India. He hopes to prove, as best he can via his studies, that progress and expansion of the economy are impossible without adequate financial services. The results of the 59th round of the NSSO survey and the current situation of financial exclusion are presented in the second half of this study. This research shows that around 51.4% of rural households have no access to official or informal financial support. While just 27.7% of farming households have access to formal credit, 31% of those without formal access have borrowed money anyway. Seventy-three percent of farm households, on average, do not have access to conventional forms of finance. The Reserve Bank of India (RBI) is making great progress toward its goal of expanding the country's population's access to banking and financial services. These actions are conducted whether or not there are identifiable issues with financial inclusion. The commercial banking sector in India and the Reserve Bank of India (RBI) are cooperating closely, allowing the RBI to execute a variety of innovative policy initiatives.

Dr. Deepali Pant Joshi (June 2011**)** Information about the latest initiatives in India to provide access to financial education and resources. She defines financial inclusion as the process of ensuring that marginalised groups, such as those with lower socioeconomic status and lower levels of education, have access to suitable financial products and services from mainstream instructional players at reasonable prices and in an open and honest fashion. She uses a class of low-income people as an example of those who are particularly at risk. When addressing financial inclusion, she explains further, one must take into account both financial literacy and financial inclusion. She says that education about money matters is guiding the way toward greater financial inclusion. The Reserve Bank of India (RBI) has thus far initiated policy steps to promote financial inclusion with the aid of financial literacy. Therefore, it is of the highest importance to receive credit counselling and financial education. Both of these should be viewed as integral components of learning the basics of handling money.

P. Arunachalam (2010) Describe how inclusive growth is progressing in India. At the Cochin University of Science and Technology in Kochi - 22, Kerala, he is now the Head of the Department of Applied Economics. Various scholars contribute substantial papers on various aspects of inclusive growth and other economic challenges in his book. Dr. Shobha V. Bhimsen published her study "Financial Inclusion - Role of Urban Co-operative banks" on pages 465–471 of the book "Inclusive Growth in India." She explains the notion of financial inclusion and her attempts to define it. She argued that the term "financial inclusion" does not have a universally accepted definition. The term "Financial Inclusion" is commonly used to describe the act of providing low-cost banking services to large, underprivileged populations. The term "financial inclusion" refers to the process of ensuring that vulnerable groups, such as weaker sections and lower income groups, have access to the appropriate financial products and services they need from mainstream institutional players at a reasonable cost and in a fair and transparent manner. We refer to this as "financial inclusion.

Objectives of the Study

The main objectives of the study are as follows –

a) To understand the significance of financial inclusion in India

b) To assess the role of financial stability in relation with financial inclusion and its importance in the economic development of the nation.

Significance of Financial Inclusion

Financial inclusion is very important for not only to fulfill the financial needs but also it is more important for the equal justice, protection of a fundamental of human rights and enjoying their financial freedom and their choice. Already there is a huge gap between rich and poor among the entire society of the country. There is a lack of equal distribution of national wealth as well as financial sources. So, there is a need to maintain the gap between these socio economic aspects by providing a stable and equitable supply of finance and trying to attend to financial inclusion within the nation. India’s nation building was not well constructed for thousands of years B.C. to understand the important significance of nation building. It is the only one remedy for inclusive growth and development of the country. May farmers committed suicide, different socio economic as well as religious problems, problem of vulnerable groups’ and poor weaker sections like SC’s, ST’s, OBO’s and other minorities so all the problems are closely associated with supply of finance and financial inclusion. Al poor’s are standing in the queue and waiting for an equitable optimum supply of finance at an affordable cost in a fair and transparent manner. It is the significance of financial inclusion in the country.

Financial Stability – Concept and Meaning

Financial stability is one of the most important financial factors for the equitable socio economic growth and development of the country. Financial stability is a fundamental and important tool for each country for implementation of monetary applications of the central bank. Reserve Bank of India (RBI) introduced financial stability in its statute under the RBI act 1934. If we compare it with developed countries like the UK and US, developing countries like China and India etc have more importance to financial stability. The central bank of the country, the RBI is conscious of the need to pay increasing attention to financial stability and wants to improve such skills in this field so that towards this direction RBI also established a multi-disciplinary financial stability unit in recent time as a part of monetary policy.

Importance of Financial Stability in India

After China Economy Indian economy is one of the faster growing economy in the world, but till today it is called like Indian Economy is developing economy and we don't know how much time is need for transfer it in to developed economy. All of us talked about the status of the Indian money market and the status of the structured banking system in India. There is a need for reforms in several ways and means. Financial stability is one important monetary objective of the Central Bank (RBI) under the RBI statute and RBI Act 1934. Financial instability poses a severe threat and barriers to achieve important macroeconomic objectives such as equitable growth and development. Nowadays the Central Bank has shown keen interest in the maintenance of financial stability in the country. Most Central banks in developed countries keep a close watch on every movement of domestic and International Financial markets. This is to provide emergency liquidity assistance whenever needed. The significance of financial stability in India is important for equitable lending and uplifts poor sections of the society and economy. Some specialized financial institutions from capital market and commercial banks from India money market create distinguished behavior regarding the short term and long-term landings in between agriculture sector and industry or service sector. It means that there is a lack of equitable credit supply within different sectors of the economy. Therefore, financial stability is very important for the significance of financial stability in such a developing economy.

Scope of Financial Stability in India

As exactly against the narrow nature of financial stability, there is a wider scope of financial stability in the economy. Nowadays, the scope of financial stability continuously increases in the country. The Indian economy basically stands on major three sectors like agriculture, industry and services and until today, we can say the agriculture sector is the backbone of the Indian economy. In all those three major sectors, financial stress and tension will be seen always, there is a lack of equitable finance especially in households and in the agriculture sector. The demand for credit in these sectors is huge in quantity and at the same time, supply of credit is not equitable so that there is positive scope and advancements of financial stability in the country. As we see, the Indian economy is one of the fastest economies in the world. The demands are also more; the issue of common poor and rural development as well as their human development is high. The role of financial stability is very important. There is greater space and scope, which is available as per the concept of financial stability. Following points have focused on the wider scope of financial stability in the country?

i. Wider scope in agriculture and allied sector
ii. There is wider scope of financial stability in SSI or semi-SSI industries.
iii. There is a huge gap between total demand for credit and demand of money and total supply of credit is between these gaps. The role of financial stability is very important and scope is more.
iv. Because of the availability of infrastructure in the rural sector of India, the condition is very bad. For agriculture or for rural industry there is no suitable infrastructure like roads, railway network, money and finance, market and application, telecommunication etc. so that the scope of financial stability is very wide.
v. This is not only not only not only for the rural sector and rural poor but also for the entire population. Human development is necessary for all individuals and they are demanding good health, good water, good standard of living, good knowledge and educational institutions, good nutritional food for life, good sanitation and other different kinds of services called basic services. As per all these conditions and situations, the role of financial stability is very important and there is wider scope in this regard.
vi. For a good political system, good social structure, good economic status and development and for good religious values and their culture and cultural activities, financial stability is very important to achieve all these developmental goals and targets.
vii. The availability of scope of financial stability and the issue of income inequality (gap between rich and poor)
viii. Regional imbalance economic development and scope of financial stability
ix. Poverty, unemployment and illiteracy and scope of financial stability.

x. Human as well as economic development and scope of financial stability

All these points are very important for financial stability in the country

Conclusion

It is possible to arrive at the conclusion that in order for the nation to achieve economic growth, both financial stability and financial inclusion (of the deprived class of the society) need to be implemented in the mainstream. This is something that needs to be done in order for the nation to achieve economic growth. This is an essential step that must be taken in order to realise our objective. It has been demonstrated that the modifications to the economy that were carried out in 1991 are to blame for the current upsurge in the degree of activity that has been observed in the nation's commercial and trade sectors over the course of the preceding several years. People are engaged in a wide variety of occupations, businesses, and other economic activities. They have been able to generate a large amount of money as a result of this, which has allowed them to ensure their financial future. This phenomenon should be properly tied to financial inclusion, and banking habits should be fostered, even in rural locations, so that the nation as a whole may achieve general financial stability.

References

1. Gautam, T. and Garg, K. (2014), "A critical study of RBI's Monetary Policy for Financial Stability", Ed. G. D. Sardana in. " Union Bank of India: Initiatives Towards IT enabled Financial Inclusion", South Asian Journal of Business and Management, Volume 3, December 2.
2. Sury, M.M., (2016), "Twenty Years of Economic Reforms in India", New Century Publications, New Delhi, pp 341-344
3. Joshi, D. (2013), Financial Inclusion and Financial Literacy", BI ECD Seminar - Round Table on the updates of Financial education and Inclusion Programmes in India.
4. Schinasi, G., (2004),"Defining Financial Stability", IMF working paper (International Capital Market).
5. Arunachalan, P. (2010), "Inclusive Growth in India", Serials Publications, New Delhi, India, pp. 465-471, ISBN - 978-81-8387-308-6.