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## NEW FINANCIAL INCLUSION INDEX PUBLISHED BY RESERVE BANK OF INDIA

(This article is related to the section 'Growth of Indian Economy, Financial Inclusion Index, Issues Related to Growth and Employment, Inclusive Growth and Issues Arising from it' of General Studies Paper-3 of UPSC Civil Services Mains Exam and 'Publication of Financial Inclusion Index by Reserve Bank of India, National Strategy for Financial Inclusion (NSFI), Pradhan Mantri Jan-Dhan Yojana (PMJDY), Expansion of Banking Infrastructure' of UPSC Prelims Exam. It also includes suggestions from the PLUTUS IAS Team. This article is related to the section 'Reserve Bank of India publishes new Financial Inclusion Index' of 'Daily Current Affairs'.)

### WHY IN THE NEWS ?



- Recently The Reserve Bank of India (RBI) has announced the Financial Inclusion Index (FI-Index) for March 2024.
- The Financial Inclusion Index, a measure to measure the extent of financial inclusion across the country, has increased from 60.1 in March 2023 to 64.2 in March 2024 in India.

## HISTORICAL PROGRESS OF FINANCIAL INCLUSION INDEX :

- The Financial Inclusion Index (FI-Index), launched by the Reserve Bank of India (RBI) on August 17, 2021, helps measure progress in ensuring access, timely credit and affordability of financial services to vulnerable groups in the country .

## OBJECTIVE AND CONSTRUCTION OF FINANCIAL INCLUSION INDEX :



- The Financial Inclusion Index has a value ranging from 0 to 100, with 0 indicating complete financial exclusion while 100 indicates complete financial inclusion.
- This index is based on the contribution of sub-indices to reflect the depth of financial inclusion. This index indicates significant progress in India's financial inclusion which can help in promoting financial inclusion of the country.
- The index is based on 97 indicators covering banking, investment, insurance, postal services and pensions.
- It aims to help measure the depth and availability of financial inclusion.
- The index has been constructed without any base year, reflecting the cumulative efforts of all stakeholders towards financial inclusion over the last several years.

## SUB-INDEX AND ITS VALUE :

- **On the basis of access to financial services :** It measures the ease of access to financial services which has a value/weight of 35%.
- **Depending on usage :** it is used to measure the depth of the range of access to financial services, Under this the importance of which is 45%.
- **On the basis of quality of financial services :** it is used to measure the quality of financial services, the importance of which is 20%.

## PUBLICATION OF FINANCIAL INCLUSION INDEX :

- FI-INDEX is published every year in the month of July.

#### **RBI'S APPROACH WITH RESPECT TO FINANCIAL INCLUSION INDEX :**

- The FI-Index supports inclusive growth by facilitating access of vulnerable groups or sections of the country to credit and safety nets critical to economic stability across the country.
- The report highlights the role of payment systems in promoting financial inclusion, augmented by digital initiatives as Aadhaar and mobile penetration expand in India.

#### **INDIAN NATIONAL STRATEGY FOR FINANCIAL INCLUSION (NSFI) :**

The main objective of the Indian National Strategy for Financial Inclusion (NSFI) is to make financial services accessible to all. Many initiatives have been taken for this. **Which are as follows –**

1. **Pradhan Mantri Jan-Dhan Yojana (PMJDY) :** This scheme is an important step for financial inclusion. Its objective is to provide the most affordable and easy access to financial services to the common people. |
2. **Expansion of banking infrastructure :** Banking infrastructure has been expanded under the Pradhan Mantri Jan-Dhan Yojana. Efforts are being made to integrate insurance and pension schemes in this |
3. **Academic Focus:** The customized modules and expanded literacy centers aim to have nationwide coverage by March 2024. This will improve financial literacy and increase awareness about financial services among the common people. |
4. **Increase in efficiency of financial intermediation :** Due to lack of financial inclusion, people deprived of bank facilities are forced to join the informal banking sector. Financial inclusion not only results in an increase in the amount of savings available, but also increases the efficiency of financial intermediation.
5. All such schemes are playing an important role in strengthening the Indian economy.

#### **SOLUTION / WAY FORWARD :**



- The improvement in the Financial Inclusion Index to 2 in March 2024 highlights the ongoing efforts and progress in increasing financial inclusion in India, with increased utilization of financial services being a significant contributor.
- The FI-Index serves as an important tool in monitoring and promoting financial inclusion across India, strengthening economic output, poverty reduction and gender empowerment through strategic initiatives and comprehensive assessment.
- The National Strategy for Financial Inclusion (NSFI) and the National Strategy for Financial Education (NSFE) outline a roadmap for coordinated efforts to enhance financial literacy, consumer protection, and expand financial access.
- Continued emphasis on expanding rural banking infrastructure and leveraging digital technologies will be critical in achieving greater financial inclusion in India.
- Digital innovations like Unified Payments Interface (UPI), Bharat QR, Bharat Bill Payment System (BBPS) and RuPay Card have revolutionized financial transactions in India, especially in rural areas.
- The integration of Jan Dhan accounts, Aadhaar and mobile phones (JAM trinity) has made financial inclusion more convenient by enabling easy access to banking services remotely.
- Despite the expansion of banking infrastructure and all the progress, there still remain challenges in the area of banking infrastructure, including uneven geographical distribution of banking services and the need to increase financial literacy among the rural population.
- It is important to address these issues to ensure sustainable and inclusive growth across all sections of society.

**Source – PIB and Indian Express.**

**PRACTICE QUESTIONS FOR PRELIMINARY EXAM :**

**Q.1. Consider the following statements regarding the Financial Inclusion Index.**

1. The Financial Inclusion Index has a value ranging from 0 to 100, with 0 representing complete financial exclusion while 100 representing complete financial inclusion.
2. FI-INDEX is published every year in the month of July.
3. The index is based on 97 indicators covering banking, investment, insurance, postal services and pensions.
4. Efforts are being made to integrate insurance and pension schemes under the Pradhan Mantri Jan-Dhan Yojana.

**Which of the above statement / statements is/are correct?**

- A. Only 1, 2 and 3.

- B. Only 2, 3 and 4.
- C. None of these.
- D. All of the above .

**Answer - D**

**PRACTICE QUESTIONS FOR MAIN EXAM :**

**Q.1. Outline the key objectives of the Financial Inclusion Index released by the Reserve Bank of India and discuss how collaborative efforts among various stakeholders can be enhanced to achieve wider financial access across the country ? ( UPSC – 2021 Word Limit – 250 Marks – 15 )**

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