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Financial Sector Reforms and Financial Inclusion in India: Progress, Challenges, and the Way Forward

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Abstract

Financial sector reforms have been one of the most significant structural transformations undertaken by India since the economic liberalisation of 1991. These reforms have fundamentally reshaped the country's banking and financial system by promoting competition, strengthening regulatory mechanisms, improving financial stability, encouraging private sector participation, and integrating the Indian financial system with global markets. While the initial phase of reforms primarily focused on improving the efficiency and soundness of financial institutions, subsequent policy initiatives increasingly emphasized financial inclusion as a key component of inclusive and sustainable economic growth. Financial inclusion seeks to ensure universal access to affordable, timely, and appropriate financial services—including savings, credit, insurance, pension, and digital payment facilities—for all sections of society, particularly low-income households, women, small businesses, and rural populations.

Over the past decade, India has emerged as a global leader in digital financial inclusion through the successful implementation of the Pradhan Mantri Jan Dhan Yojana (PMJDY), Aadhaar-enabled authentication, Unified Payments Interface (UPI), Direct Benefit Transfer (DBT), India Stack, Payment Banks, Small Finance Banks, and various digital banking initiatives. These reforms have substantially expanded banking outreach, increased digital payment adoption, enhanced transparency in welfare transfers, and reduced financial exclusion. According to the Global Findex Database (2021), nearly 78 percent of Indian adults possess a bank account, while UPI has transformed India's digital payment ecosystem by processing billions of transactions every month. Nevertheless, significant challenges remain in achieving comprehensive financial inclusion. Regional disparities, digital illiteracy, gender inequality, cyber fraud, inadequate financial awareness, dormant bank accounts, and unequal access to formal credit continue to impede inclusive financial development.

This paper examines the evolution of financial sector reforms in India and evaluates their contribution to financial inclusion. It analyses the major policy initiatives undertaken by the Reserve Bank of India (RBI) and the Government of India, assesses recent achievements using secondary data from RBI, Ministry of Finance, NPCI, NABARD, and the World Bank, and identifies the key barriers to universal financial access. The study further proposes policy recommendations aimed at strengthening digital infrastructure, improving financial literacy, promoting gender-inclusive finance, expanding formal credit to underserved communities, and enhancing consumer protection in digital financial services. The paper concludes that sustained financial sector reforms, supported by technological innovation, regulatory oversight, and inclusive public policies, are essential for achieving equitable economic development and realizing India's vision of inclusive and sustainable growth.

1. Introduction

The financial sector serves as the backbone of every modern economy by mobilising savings, facilitating investment, allocating capital efficiently, supporting entrepreneurship, and promoting sustainable economic development. A robust and inclusive financial system enhances economic productivity, reduces poverty, generates employment opportunities, and contributes significantly to overall social welfare. Recognising the strategic importance of the financial sector, India initiated comprehensive financial sector reforms in 1991 as part of the broader programme of economic liberalisation, privatisation, and globalisation (LPG). These reforms were introduced in response to the balance of payments crisis and aimed to modernise the financial system, improve operational efficiency, strengthen prudential regulation, and enhance the competitiveness of financial institutions.

The recommendations of the Narasimham Committee (1991 and 1998) laid the foundation for banking sector reforms in India. These reforms included deregulation of interest rates, reduction in statutory pre-emptions such as the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), strengthening of capital adequacy norms, prudential regulation of banks, introduction of income recognition and asset classification standards, establishment of private sector banks, development of capital markets, and greater autonomy for financial institutions. The Reserve Bank of India subsequently introduced several regulatory measures aimed at improving corporate governance, risk management practices, financial stability, and technological modernization within the banking sector.

Although these reforms significantly enhanced the efficiency and resilience of India's financial institutions, policymakers gradually recognised that financial sector development alone was insufficient to achieve inclusive economic growth. A substantial proportion of India's population, particularly those residing in rural and remote areas, women, informal sector workers, small farmers, and micro-enterprises, remained outside the formal financial system. Limited access to banking services forced many households to depend on informal moneylenders charging exorbitant interest rates, thereby perpetuating poverty and financial vulnerability.

Financial inclusion emerged as an important public policy objective to address these structural inequalities. The Reserve Bank of India defines financial inclusion as the process of ensuring access to appropriate financial products and services needed by vulnerable groups at an affordable cost in a fair and transparent manner. Financial inclusion extends beyond merely opening bank accounts; it encompasses access to savings, affordable credit, insurance, pension, remittance services, financial literacy, and secure digital payment systems.

India's approach to financial inclusion has undergone a remarkable transformation during the past decade through the integration of digital technologies into financial service delivery. The launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014 marked a watershed moment in expanding banking access by facilitating the opening of zero-balance bank accounts for millions of previously unbanked citizens. This initiative was complemented by Aadhaar-based biometric identification, Direct Benefit Transfer (DBT), mobile banking, Unified Payments Interface (UPI), RuPay cards, Payment Banks, Small Finance Banks, Bharat Bill Payment System (BBPS), FASTag, and the broader India Stack digital infrastructure. Together, these innovations have significantly improved accessibility, affordability, transparency, and efficiency within the financial system.

India is now recognised globally as one of the pioneers in digital financial inclusion. The rapid growth of UPI has revolutionised digital payments by enabling instant, low-cost, interoperable transactions across financial institutions. Government welfare schemes increasingly rely on DBT mechanisms that transfer subsidies directly into beneficiaries' bank accounts, reducing leakages and improving governance. Similarly, fintech companies have expanded access to digital credit, micro-insurance, investment platforms, and financial advisory services.

Despite these impressive achievements, several structural and operational challenges continue to constrain the effectiveness of financial inclusion initiatives. Significant disparities persist across states, gender, income groups, and educational levels. Rural areas continue to experience limited digital connectivity and inadequate banking infrastructure. Financial literacy remains low among economically weaker sections, affecting the effective utilisation of financial products. Cybersecurity concerns, digital fraud, identity theft, and data privacy issues have emerged as new risks associated with digital financial services. Moreover, a substantial number of bank accounts remain inactive, indicating that access does not necessarily translate into meaningful financial inclusion.

The growing role of fintech companies, artificial intelligence, digital lending platforms, and embedded finance presents both opportunities and regulatory challenges for policymakers. Ensuring responsible innovation while protecting consumer interests has become a critical priority for the Reserve Bank of India and other financial regulators. At the same time, climate-related financial risks, sustainable finance, and Environmental, Social and Governance (ESG) considerations are increasingly shaping the future direction of financial sector reforms.

Against this backdrop, the present study seeks to critically examine the relationship between financial sector reforms and financial inclusion in India. The study evaluates the progress achieved through major policy initiatives, analyses existing challenges, and identifies policy measures necessary for creating a more inclusive, resilient, technology-driven, and sustainable financial ecosystem. The findings are expected to contribute to the ongoing discourse on inclusive economic development and provide useful policy insights for researchers, financial institutions, and government agencies.

2. Need for the Study

The Indian financial system has undergone remarkable transformation over the last three decades. While banking reforms have strengthened institutional efficiency and financial stability, ensuring equitable access to financial services remains a significant policy challenge. Despite substantial progress through initiatives such as PMJDY, UPI, Aadhaar, and DBT, disparities continue across regions, gender, income groups, and occupations. The rapid expansion of digital finance has introduced new opportunities alongside challenges relating to financial literacy, cybersecurity, consumer protection, and digital exclusion.

Given these developments, there is a need for a comprehensive assessment of how financial sector reforms have influenced financial inclusion in India. Such an analysis is essential for identifying policy gaps and formulating strategies that ensure inclusive and sustainable economic growth.

3. Research Gap

Existing studies have predominantly focused either on banking reforms or on specific financial inclusion initiatives such as PMJDY or digital payments. Limited research has comprehensively examined the overall impact of financial sector reforms on financial inclusion by integrating regulatory reforms, technological innovations, digital public infrastructure, and recent policy initiatives. Furthermore, relatively few studies incorporate post-pandemic developments, fintech innovations, and the growing role of digital public infrastructure in advancing inclusive finance. The present study seeks to bridge this gap by providing a holistic assessment of India's financial sector reforms and their implications for financial inclusion.

4. Objectives of the Study

The study is guided by the following objectives:

1. To examine the evolution of financial sector reforms in India.
2. To analyse the concept and dimensions of financial inclusion.
3. To evaluate the contribution of major financial sector reforms towards promoting financial inclusion.
4. To assess the impact of digital financial initiatives such as PMJDY, UPI, Aadhaar, DBT, and India Stack.
5. To identify the major challenges affecting financial inclusion in India.
6. To suggest policy measures for strengthening inclusive and sustainable financial development.

5. Research Methodology

The study is **descriptive and analytical** in nature and is based entirely on **secondary data**.

Sources of Data

Secondary data have been collected from Reserve Bank of India (RBI), Ministry of Finance, Government of India, National Payments Corporation of India (NPCI), NABARD. World Bank Global Findex Database, IMF, NITI Aayog, RBI Annual Reports, Economic Survey of India, Research journals, Books, Government publications, Working papers.

Period of Study

The study covers the period from **1991 to 2026**, capturing the major phases of financial sector reforms and financial inclusion initiatives.

Analytical Approach

The study employs Descriptive analysis, Trend analysis, Comparative analysis, Policy analysis, Interpretation of secondary statistical data presented through tables and figures

6. Review of Literature

Financial inclusion has become one of the central objectives of financial sector reforms across developing economies. Numerous studies have examined the relationship between banking reforms, digital financial services, institutional development, and inclusive economic growth. The following review presents major empirical and theoretical contributions relevant to the present study.

6.1 Narasimham Committee (1991)

The Committee on the Financial System, chaired by M. Narasimham, laid the foundation for India's financial sector reforms. The committee recommended reducing statutory pre-emptions through lower Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), deregulating interest rates, improving capital adequacy norms, strengthening prudential regulations, and enhancing competition by allowing private sector participation. These recommendations transformed the Indian banking sector into a more market-oriented and efficient financial system. The committee argued that an efficient banking system is a prerequisite for sustainable economic development and financial deepening.

6.2 Narasimham Committee II (1998)

The second Narasimham Committee emphasized banking consolidation, reduction of Non-Performing Assets (NPAs), improved corporate governance, technological modernization, risk management, and stronger supervision by the Reserve Bank of India (RBI). The committee highlighted that financial sector stability and public confidence are essential for expanding access to financial services.

6.3 Rangarajan Committee (2008)

The Committee on Financial Inclusion chaired by Dr. C. Rangarajan defined financial inclusion as ensuring access to financial services and timely credit at affordable costs for vulnerable and low-income groups. The committee stressed that financial inclusion should encompass savings, credit, insurance, pensions, and payment services rather than merely bank account ownership. It recommended expanding banking correspondents, financial literacy programmes, simplified Know Your Customer (KYC) norms, and technology-enabled financial services.

6.4 Demirgüç-Kunt, Klapper, Singer, Ansar and Hess (2022)

Using the Global Findex Database, the authors reported remarkable improvements in financial inclusion worldwide. India emerged as one of the fastest-growing countries in terms of bank account ownership due primarily to the Pradhan Mantri Jan Dhan Yojana (PMJDY). However, the study observed that ownership of bank accounts does not necessarily imply active usage, highlighting the importance of digital payments, financial literacy, and regular account transactions.

6.5 Reserve Bank of India (Various Annual Reports)

The RBI Annual Reports consistently emphasize that financial inclusion contributes to financial stability, poverty reduction, and inclusive economic growth. The RBI has introduced several initiatives including Business Correspondents (BCs), differentiated banking licences, digital banking units, Payment Banks, Small Finance Banks, priority sector lending, simplified KYC procedures, and financial literacy centres. These measures have significantly expanded formal financial access across rural and underserved regions.

6.6 World Bank (Global Findex Database, 2021)

The World Bank observed that nearly four-fifths of Indian adults possess formal bank accounts, reflecting one of the largest expansions in financial access globally. Digital government payments, mobile banking, and Aadhaar-linked financial services have substantially improved inclusion. Nevertheless, gender disparities, limited digital skills, and rural infrastructure gaps continue to restrict effective financial participation.

6.7 National Payments Corporation of India (NPCI)

NPCI reports indicate that the Unified Payments Interface (UPI) has fundamentally transformed India's payment ecosystem. Instant, low-cost, interoperable digital payments have significantly reduced dependence on cash transactions while promoting financial inclusion among individuals, merchants, and small businesses. UPI has become a global benchmark in digital payment innovation.

6.8 Beck, Demirgüç-Kunt and Levine (2007)

The authors found that financial development contributes significantly to poverty reduction and income equality by improving access to credit and financial services. Countries with more inclusive financial systems exhibit higher economic growth, greater entrepreneurial activity, and reduced income disparities.

6.9 Burgess and Pande (2005)

Their landmark study demonstrated that branch expansion into rural areas substantially reduced rural poverty in India by increasing access to institutional credit and financial services. The study highlighted that banking outreach can promote agricultural productivity, employment generation, and rural development.

6.10 Allen, Demirgüç-Kunt, Klapper and Peria (2016)

The study analysed barriers to financial inclusion across developing countries and identified low income, limited financial literacy, documentation requirements, and geographical isolation as major obstacles. The authors emphasized that digital financial technologies can overcome many traditional barriers to financial access.

6.11 Sahay et al. (2015)

The International Monetary Fund (IMF) study concluded that financial inclusion promotes economic growth and financial stability when accompanied by strong regulation and consumer protection. However, excessive or poorly regulated credit expansion may increase financial risks.

6.12 Ghosh (2013)

Ghosh argued that financial inclusion should be viewed as a multidimensional development strategy rather than merely a banking initiative. Sustainable inclusion requires coordination among government agencies, financial institutions, technology providers, and educational institutions.

6.13 NITI Aayog (Digital Financial Inclusion Reports)

NITI Aayog has highlighted India's Digital Public Infrastructure (DPI)—including Aadhaar, UPI, DigiLocker, and Account Aggregator—as a transformative ecosystem that enhances financial inclusion, transparency, and service delivery while fostering innovation.

6.14 NABARD (Financial Inclusion Survey)

NABARD studies emphasize the importance of Self-Help Groups (SHGs), Joint Liability Groups (JLGs), microfinance institutions, and cooperative credit systems in promoting rural financial inclusion. Financial literacy and livelihood support remain crucial for sustaining financial participation.

6.15 Economic Survey of India (Various Issues)

The Economic Survey consistently identifies financial inclusion as an essential driver of inclusive growth. It notes that digital financial services have significantly improved government welfare delivery, reduced leakages through Direct Benefit Transfer (DBT), and enhanced transparency.

Summary of Literature

The literature reveals broad agreement that financial sector reforms have significantly improved the efficiency and stability of India's financial system while promoting greater access to financial services. However, researchers also point to persistent challenges, including inactive bank accounts, digital exclusion, gender disparities, regional imbalances, cybersecurity concerns, and low financial literacy. There is a consensus that meaningful financial inclusion requires not only access but also active usage of financial services, digital capability, consumer protection, and supportive regulatory frameworks.

Despite substantial research on individual initiatives such as PMJDY, UPI, or microfinance, relatively few studies have examined the integrated impact of financial sector reforms, digital public infrastructure, and regulatory innovations on financial inclusion. The present study seeks to address this gap through a comprehensive policy-oriented analysis.

7. Theoretical Framework

The study is grounded in three complementary theoretical perspectives:

7.1 Financial Intermediation Theory

This theory explains how financial institutions mobilize savings and allocate resources efficiently to productive investments. Effective financial intermediation reduces transaction costs, mitigates information asymmetry, and enhances economic efficiency. Financial sector reforms strengthen the functioning of intermediaries, thereby facilitating broader financial inclusion.

7.2 Inclusive Growth Theory

Inclusive Growth Theory argues that economic growth should generate opportunities and equitable access to resources for all sections of society. Financial inclusion is a key mechanism through which marginalized populations can participate in economic activities, improve livelihoods, and reduce poverty.

7.3 Digital Finance Theory

Digital Finance Theory highlights the role of technology in reducing the cost of delivering financial services, expanding outreach to remote areas, and improving efficiency. Innovations such as mobile banking, biometric identification, digital payments, and fintech platforms lower barriers to financial access and enhance inclusion.

8. Evolution of Financial Sector Reforms in India (1991–2026)

India's financial sector reforms can be classified into five distinct phases, each reflecting changing policy priorities and economic conditions.

Phase I: Liberalisation and Structural Reforms (1991–2000)

The balance of payments crisis of 1991 triggered comprehensive reforms based on the recommendations of the Narasimham Committee. Major reforms included Deregulation of interest rates, Reduction of CRR and SLR, Introduction of prudential norms, Capital adequacy requirements, Income recognition and asset classification norms, Licensing of new private sector banks, Strengthening RBI's supervisory role, Modernisation of financial markets. These measures significantly improved banking efficiency, competition, and financial stability.

Phase II: Financial Deepening and Institutional Strengthening (2001–2010)

This phase focused on Core banking solutions, Electronic payment systems, Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), Credit Information Companies, Basel II implementation, Expansion of financial literacy programmes, Business Correspondent (BC) model, No-frills bank accounts, The objective shifted from financial sector efficiency to expanding access.

Phase III: Financial Inclusion Revolution (2011–2016)

Key initiatives included Pradhan Mantri Jan Dhan Yojana (PMJDY), Aadhaar-enabled payments, RuPay debit cards, Direct Benefit Transfer (DBT), Financial literacy campaigns, Payment Banks, Small Finance Banks. These reforms dramatically expanded formal banking access, especially among previously unbanked populations.

Phase IV: Digital Financial Ecosystem (2016–2022)

The digital transformation accelerated with Unified Payments Interface (UPI), Bharat Interface for Money (BHIM), India Stack, Bharat Bill Payment System (BBPS), FASTag, Aadhaar Enabled Payment System (AePS), Account Aggregator framework, Regulatory Sandbox for FinTech. India became one of the world's leading digital payment ecosystems during this period.

Phase V: Inclusive Digital Finance and Sustainability (2023–2026)

Recent reforms focus on Digital Banking Units, Central Bank Digital Currency (Digital Rupee), AI-enabled financial services, Strengthened cybersecurity, Digital lending regulations, Green finance, Climate risk management, Consumer protection in digital finance, Expansion of financial services through Digital Public Infrastructure (DPI, These initiatives seek to combine innovation with resilience, consumer trust, and sustainability

Table 1. Chronology of Major Financial Sector Reforms in India

Period	Major Reforms	Key Outcomes
1991–2000	Banking liberalization, prudential norms	Stronger banking system
2001–2010	Core banking, RTGS, NEFT, BC model	Improved access and efficiency
2011–2016	PMJDY, Aadhaar, DBT, Payment Banks	Expansion of formal financial access
2016–2022	UPI, India Stack, BBPS, FASTag	Rapid growth in digital financial services
2023–2026	CBDC, AI, Digital Banking Units, cybersecurity reforms	Towards sustainable and technology-driven financial inclusion

9. Financial Inclusion: Concept and Dimensions

Financial inclusion refers to the process of ensuring that individuals and businesses, particularly those belonging to disadvantaged and low-income groups, have access to affordable, timely, and appropriate financial products and services delivered in a fair, transparent, and sustainable manner. These services include savings accounts, credit facilities, insurance, pension schemes, remittance services, and digital payment systems.

The Reserve Bank of India (RBI) defines financial inclusion as the process of ensuring access to financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost and in a transparent manner. Financial inclusion is not merely about opening bank accounts; it encompasses meaningful usage of financial services, financial capability, consumer protection, and access to formal credit.

An inclusive financial system contributes to poverty reduction, employment generation, women's empowerment, entrepreneurship development, and balanced regional development. It also supports the achievement of several Sustainable Development Goals (SDGs), particularly those related to poverty, gender equality, decent work, and reduced inequalities.

10. Dimensions of Financial Inclusion

Financial inclusion comprises multiple dimensions:

10.1 Access

Access refers to the availability of banking and financial services within reasonable distance and at affordable cost. Expansion of bank branches, Business Correspondents (BCs), ATMs, digital banking channels, and mobile banking services improves access.

10.2 Usage

Merely possessing a bank account does not ensure financial inclusion. Active usage of savings accounts, digital payments, insurance, pension schemes, and institutional credit determines the effectiveness of inclusion.

10.3 Quality

Financial services should be affordable, transparent, reliable, and tailored to the needs of diverse customer groups, including women, farmers, MSMEs, and low-income households.

10.4 Financial Literacy
Financial literacy enables individuals to understand financial products, manage personal finances, make informed decisions, and protect themselves from fraud.

10.5 Consumer Protection
Strong grievance redressal mechanisms, cybersecurity, data privacy, and transparent pricing build trust in formal financial institutions.

11. Evolution of Financial Inclusion in India
India's financial inclusion strategy has evolved through three broad phases:

Phase I (1969–1990): Social Banking

This phase witnessed Nationalisation of major commercial banks, Expansion of rural bank branches, Priority Sector Lending (PSL), Establishment of Regional Rural Banks (RRBs), Lead Bank Scheme.

Phase II (1991–2013): Financial Sector Reforms

Banking liberalisation, Technological modernization, Electronic payment systems, Core Banking Solutions (CBS), Business Correspondent model, No-frills accounts.

Phase III (2014 onwards): Digital Financial Inclusion

Pradhan Mantri Jan Dhan Yojana (PMJDY), Aadhaar, Direct Benefit Transfer (DBT), Unified Payments Interface (UPI), Bharat Bill Payment System (BBPS), India Stack, Payment Banks, Small Finance Banks, Digital Rupee (CBDC).

12. Major Financial Inclusion Initiatives in India
12.1 Pradhan Mantri Jan Dhan Yojana (PMJDY)
Launched on **28 August 2014**, PMJDY represents the world's largest financial inclusion programme. The scheme aims to provide every unbanked adult with access to a basic savings bank account, a RuPay debit card, accident insurance, overdraft facilities, and financial literacy. Key features include Zero-balance savings account, RuPay debit card with accident insurance, Overdraft facility up to ₹10,000 (subject to eligibility), Direct Benefit Transfer (DBT), Mobile banking, Access through Bank Mitras (Business Correspondents).

Table 2. Progress of PMJDY

Indicator	February 2025	July 2026
Total Accounts (crore)	54.97	58.70
Deposits (₹ crore)	2,52,750	3,09,664
Women Account Holders (crore)	30.60	32.72
Rural/Semi-Urban Accounts (crore)	36.59	45.68
RuPay Cards Issued (crore)	37.60	40.89

Source: Department of Financial Services, Government of India.

Interpretation

The steady increase in PMJDY accounts and deposits demonstrates significant progress in extending formal banking services to previously unbanked populations. The fact that over half of the account holders are women and a large majority of accounts are in rural and semi-urban areas highlights the programme's role in promoting inclusive finance and women's economic participation.

12.2 Aadhaar-enabled Financial Services

Aadhaar has transformed financial inclusion by enabling biometric authentication for banking transactions. It facilitates Simplified Know Your Customer (KYC) procedures, Aadhaar Enabled Payment System (AePS), Direct Benefit Transfers, Paperless account opening, Secure authentication for financial transactions. The integration of Aadhaar with bank accounts has significantly reduced leakages in government welfare programmes and improved transparency.

12.3 Direct Benefit Transfer (DBT)

DBT enables subsidies and welfare benefits to be transferred directly into beneficiaries' bank accounts. Major benefits include Elimination of intermediaries, Reduced corruption, Faster benefit transfers, Improved transparency, Greater accountability, Increased usage of formal banking channels. DBT has also encouraged beneficiaries to keep their accounts active, thereby enhancing effective financial inclusion.

12.4 Unified Payments Interface (UPI)

Launched by the National Payments Corporation of India (NPCI) in 2016, UPI has revolutionised digital payments by enabling instant, interoperable, low-cost fund transfers using smartphones and QR codes.

Key Features

Instant 24×7 payments, Interoperability across banks, Mobile-first architecture, QR-code based transactions, Secure authentication, Low transaction cost, Easy integration with fintech platforms.

Table 3. Growth of UPI

Month	**Banks Live on UPI**	**Transaction Volume (million)**	**Transaction Value (₹ crore)**
April 2026	713	22,346.80	29,02,988.05
May 2026	720	23,201.93	29,90,424.21

Source: National Payments Corporation of India (NPCI).

Interpretation

The continued expansion in participating banks, transaction volume, and transaction value demonstrates the rapid adoption of digital payments in India. UPI has become a key pillar of financial inclusion by enabling low-cost digital transactions for individuals, merchants, and micro-enterprises, including those in smaller towns and rural areas.

12.5 India Stack

India Stack is an integrated Digital Public Infrastructure (DPI) that supports financial inclusion through Aadhaar authentication, e-KYC, e-Sign, Digi Locker, UPI, Account Aggregator framework. India Stack reduces transaction costs, simplifies customer onboarding, and supports innovation in digital financial services.

12.6 Payment Banks

Payment Banks were introduced by the RBI to enhance financial inclusion by providing:
Small savings accounts, Domestic remittance services, Digital payments, Mobile banking, ATM/debit card facilities. They cater particularly to migrant workers, low-income households, and small businesses.

12.7 Small Finance Banks (SFBs)

Small Finance Banks were established to improve credit access for Small farmers, Micro-enterprises. Informal sector workers, Small traders, Low-income households. They play an important role in expanding formal credit to underserved segments.

12.8 MUDRA Yojana

The Pradhan Mantri Mudra Yojana (PMMY) provides collateral-free loans to micro and small enterprises under three categories – Shishu, Kishor, Tarun. The scheme has promoted entrepreneurship, employment generation, and financial inclusion among first-time borrowers. By July 2026, over **59 crore loans** amounting to more than **₹41 lakh crore** had been sanctioned under PMMY.

12.9 Financial Literacy Initiatives

The RBI, NABARD, commercial banks, and the Government of India have implemented Financial Literacy Centres (FLCs), Digital financial awareness programmes, School and college financial education, Cybersecurity awareness campaigns, Rural financial literacy drives. The RBI has also expanded the Centre for Financial Literacy network and is implementing the National Strategy for Financial Inclusion (2025–30) to deepen access, usage, financial education, and consumer protection.

Critical Evaluation

India's financial inclusion strategy has evolved from branch expansion to a technology-driven model integrating digital identity, interoperable payments, and direct benefit delivery. PMJDY, Aadhaar, UPI, DBT, and India Stack together have substantially improved access to formal financial services and reduced transaction costs. Nevertheless, meaningful inclusion requires sustained efforts to improve account usage, digital literacy, cybersecurity, consumer protection, and access to formal credit, particularly for women, rural households, and micro-enterprises

13. Progress of Financial Inclusion in India

Financial inclusion in India has progressed remarkably during the last decade owing to a combination of financial sector reforms, digital public infrastructure, government initiatives, and technological innovation. The expansion of formal banking services, digital payment systems, direct benefit transfers, and fintech solutions has enabled millions of previously excluded individuals to participate in the formal financial system.

The Reserve Bank of India (RBI) has also adopted a multidimensional approach by focusing not only on access to banking services but also on their usage and quality. The improvement in India's Financial Inclusion Index (FI-Index), expansion of PMJDY accounts, exponential growth in UPI transactions, wider digital payment acceptance, and greater participation of women and rural households collectively indicate substantial progress in financial inclusion.

13.1 RBI Financial Inclusion Index (FI-Index)

To measure the extent of financial inclusion comprehensively, the Reserve Bank of India introduced the **Financial Inclusion Index (FI-Index)** in 2021. The index measures financial inclusion across three dimensions: **Access, Usage, Quality**

The index ranges from **0 to 100**, where a higher value indicates greater financial inclusion.

Table 4: RBI Financial Inclusion Index

Year	FI-Index
March 2021	53.9
March 2022	56.4
March 2023	60.1
March 2024	64.2

Source: Reserve Bank of India Annual Report 2024–25.

Interpretation

The steady rise in the Financial Inclusion Index from **53.9 in 2021 to 64.2 in 2024** reflects significant improvement in banking outreach, digital payment adoption, financial literacy initiatives, and the availability of financial services across the country. According to the RBI, the increase was driven by improvements across all three dimensions—access, usage, and quality—indicating that financial inclusion in India is becoming more comprehensive rather than merely increasing the number of bank accounts.

13.2 Expansion of PMJDY Accounts

The Pradhan Mantri Jan Dhan Yojana (PMJDY) has emerged as the cornerstone of India's financial inclusion strategy. Since its launch in 2014, the programme has enabled millions of previously unbanked individuals to access formal financial services.

Table 5: Progress of PMJDY (as on 8 July 2026)

Indicator	**Value**
Total Accounts	58.70 crore
Women Beneficiaries	32.72 crore
Rural/Semi-urban Accounts	45.68 crore
Deposits	₹3,09,664 crore
RuPay Debit Cards	40.89 crore

Source: Department of Financial Services, Government of India.

Interpretation

The PMJDY programme has substantially increased banking penetration among economically weaker sections. Women account holders constitute more than half of all beneficiaries, while rural and semi-urban accounts account for nearly two-thirds of the total, indicating that the programme has effectively targeted traditionally excluded populations. The increase in deposits also suggests greater confidence in the formal banking system and improved account usage.

13.3 Growth of Digital Payments

India has witnessed an unprecedented expansion in digital payments, driven primarily by the Unified Payments Interface (UPI). UPI has become one of the world's largest real-time payment systems, enabling instant, interoperable, and low-cost transactions for individuals, businesses, and government agencies.

Table 6: Growth of UPI Transactions

Month	**Transaction Volume (Million)**	**Transaction Value (₹ Crore)**
April 2026	22,346.80	29,02,988.05
May 2026	23,201.93	29,90,424.21

Source: National Payments Corporation of India (NPCI).

Interpretation

The continuous increase in transaction volume and value reflects widespread adoption of digital payment systems across urban and rural India. UPI has significantly reduced transaction costs, promoted cashless payments, and expanded access to financial services for small merchants, street vendors, and households. It has also strengthened transparency and efficiency in the financial system.

13.4 Financial Inclusion among Women

Women's financial inclusion has improved significantly due to targeted government initiatives, including

PMJDY, Direct Benefit Transfer (DBT), Self-Help Group (SHG) programmes, and digital banking services.

Major achievements include:

- More than **32 crore women** hold PMJDY accounts.
- Direct Benefit Transfers are increasingly credited directly into women's bank accounts.
- Self-Help Groups have strengthened access to savings and credit.
- Digital payment platforms have increased women's participation in formal financial transactions.
- Financial literacy programmes have enhanced awareness and confidence in using financial products.

Significance

Women's ownership and active use of bank accounts contribute to Economic empowerment, Greater household financial security, Improved savings behaviour, Increased entrepreneurial activity, Enhanced decision-making within households.

13.5 Financial Inclusion in Rural India

Rural financial inclusion has expanded through multiple channels like Business Correspondent (BC) model, Regional Rural Banks, Small Finance Banks, Mobile banking. Aadhaar Enabled Payment System (AePS), Common Service Centres (CSCs), Digital payment infrastructure. The large share of PMJDY accounts in rural and semi-urban areas demonstrates the success of these initiatives in expanding financial access beyond metropolitan regions.

13.6 Financial Inclusion of MSMEs

Micro, Small and Medium Enterprises (MSMEs) contribute substantially to employment generation and economic growth. Financial sector reforms have enhanced MSME access to finance through Priority Sector Lending, MUDRA loans, Stand-Up India Scheme, Credit Guarantee Schemes, Digital lending platforms, TReDS (Trade Receivables Discounting System), These measures have improved formal credit availability, reduced dependence on informal lenders, and promoted entrepreneurship.

13.7 Expansion of Digital Public Infrastructure (DPI)

India's Digital Public Infrastructure has transformed financial inclusion through the integration of Aadhaa, UPI, DigiLocker, e-KYC, Account Aggregator framework, Direct Benefit Transfer, FASTag, Bharat Bill Payment System. This integrated ecosystem has reduced transaction costs, simplified customer onboarding, improved service delivery, and encouraged innovation in digital financial services. India's DPI model is increasingly recognised internationally as an example of scalable and inclusive digital finance.

13.8 Contribution of Financial Sector Reforms to Financial Inclusion

The cumulative impact of financial sector reforms can be summarised as follows:

Area	Major Contribution
Banking Sector Reforms	Improved efficiency, competition, and financial stability
PMJDY	Universal access to banking services
Aadhaar	Simplified identification and e-KYC
UPI	Affordable and instant digital payments
DBT	Transparent and efficient welfare delivery
Small Finance Banks	Enhanced credit access for underserved groups
Payment Banks	Expanded low-cost banking services

Business Correspondents	Banking access in remote areas
Digital Banking	Greater convenience and financial inclusion
FinTech	Innovative financial products and services

13.9 Critical Evaluation

The evidence indicates that India has made remarkable progress in financial inclusion over the past decade. Financial sector reforms have evolved from strengthening banking institutions to creating a comprehensive digital financial ecosystem that integrates banking, payments, identity, and welfare delivery. The RBI's FI-Index has shown consistent improvement, PMJDY has expanded banking access to nearly 59 crore account holders, and UPI has transformed the country's payment landscape into one of the largest digital payment ecosystems globally.

Despite these achievements, challenges remain. Many accounts remain inactive, access to formal credit is uneven across regions and socio-economic groups, digital literacy gaps persist, and cybersecurity risks have increased with the rapid expansion of digital finance. Financial inclusion should therefore be assessed not only by the number of accounts opened but also by the effective and sustained use of financial services. Continued policy efforts are required to improve financial capability, strengthen consumer protection, bridge the digital divide, and ensure that the benefits of financial innovation reach all sections of society.

14. Challenges to Financial Inclusion in India

Although India has made remarkable progress in financial inclusion through financial sector reforms, several structural, technological, institutional, and socio-economic barriers continue to impede the realization of universal financial access. While millions of individuals have been brought into the formal banking system, ensuring active usage, equitable access to credit, and long-term financial well-being remains a significant challenge. These issues require coordinated policy interventions by the Reserve Bank of India (RBI), Government of India, financial institutions, fintech companies, and civil society organizations.

14.1 Regional Disparities in Financial Inclusion

Financial inclusion is unevenly distributed across states and regions. Southern and western states generally exhibit higher banking penetration, digital payment adoption, and financial literacy than many eastern and north-eastern states.

Factors contributing to regional disparities include:

Unequal banking infrastructure, Variations in digital connectivity, Differences in literacy and educational attainment, Income inequalities, Geographic remoteness, Lower availability of banking correspondents in difficult terrains.

Implications - Unequal access to institutional credit, Regional differences in entrepreneurship, Persistent rural poverty, Limited participation in digital financial services.

14.2 Digital Divide

Digital financial inclusion depends heavily on internet access, smartphones, electricity, and digital literacy. Despite rapid expansion of digital payments, significant disparities remain in Internet connectivity, Smartphone ownership, Mobile network quality, Digital skills, Access to reliable electricity.

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Table 8: Major Dimensions of India's Digital Divide

Dimension	Urban Areas	Rural Areas
Internet Connectivity	High	Moderate to Low
Smartphone Usage	High	Moderate
Digital Literacy	Relatively High	Relatively Low
Banking Infrastructure	Well-developed	Limited in remote regions
Financial Awareness	Higher	Lower

Interpretation

Although digital banking has reduced geographical barriers, digital exclusion continues to affect millions of rural households. Without adequate digital infrastructure and skills, many individuals remain unable to benefit fully from digital financial services.

14.3 Financial Literacy

Financial literacy remains one of the most significant obstacles to meaningful financial inclusion. Many account holders lack adequate knowledge regarding Savings products, Insurance, Pension schemes, Digital payments, Investment products, Cybersecurity, Responsible borrowing. Consequently, dormant accounts increase, digital services remain underutilized, vulnerability to fraud increases, savings behaviour remains weak. Financial literacy is therefore essential for transforming financial access into financial empowerment.

14.4 Dormant Bank Accounts

Opening bank accounts represents only the first stage of financial inclusion. A significant proportion of basic savings accounts remain inactive because of irregular income, low financial awareness, limited banking transactions, migration, dependence on cash. Inactive accounts reduce the effectiveness of financial inclusion initiatives and limit cross-selling of other financial products such as insurance and pensions.

14.5 Gender Gap in Financial Inclusion

Although women account for a majority of PMJDY account holders, gender-based barriers continue to affect effective financial participation.

Major barriers include Lower labour force participation, Limited financial decision-making authority, Lower digital literacy, Restricted ownership of mobile phones, Social and cultural constraints, Limited access to formal credit.

Consequences - Reduced entrepreneurial activity, Lower household financial resilience, Greater dependence on informal borrowing. Targeted financial literacy programmes and women-centric financial products are essential for narrowing the gender gap.

14.6 Limited Access to Formal Credit

While access to savings accounts has expanded considerably, access to institutional credit remains uneven. Small farmers, micro-enterprises, street vendors, and informal workers frequently depend on informal moneylenders due to lack of collateral, inadequate credit history, documentation requirements, income uncertainty. Consequently, borrowing costs remain high, indebtedness increases, entrepreneurial growth slows. The challenge is to move from "bank account inclusion" to "credit inclusion."

14.7 Cybersecurity Risks

The rapid growth of digital payments has been accompanied by increasing cyber risks.

Common threats include phishing, identity theft, QR code fraud, fake mobile applications, OTP fraud, account hacking, social engineering attacks.

Implications - Loss of consumer confidence, Financial losses, Reduced adoption of digital banking, Increased regulatory burden. Strengthening cybersecurity and consumer awareness is therefore essential for sustaining digital financial inclusion.

14.8 Consumer Protection Issues

Financial inclusion must be accompanied by effective consumer protection mechanisms.

Major concerns include hidden charges, unfair lending practices, digital lending fraud, data privacy, grievance redressal delays, mis-selling of financial products.

The RBI has introduced digital lending guidelines and strengthened ombudsman mechanisms, but continuous regulatory improvements remain necessary.

14.9 Challenges Faced by MSMEs

Although several government schemes support MSMEs, many enterprises continue to face financial constraints. Major problems include inadequate working capital, collateral requirements, delayed loan approvals, limited financial records, high cost of borrowing. Improved credit assessment using digital data and alternative credit scoring can significantly improve MSME financing.

14.10 Challenges for Small Farmers

Agricultural households continue to experience seasonal income fluctuations, climate risks, dependence on informal credit, inadequate crop insurance coverage, limited digital awareness. Strengthening agricultural finance remains critical for inclusive rural development.

14.11 Regulatory Challenges

Rapid technological innovation has outpaced financial regulation in several areas.

Emerging regulatory concerns include Artificial Intelligence in finance, Buy Now Pay Later (BNPL), Digital Lending Platforms, Cryptocurrency, Cross-border digital payments, Data privacy, FinTech supervision. Balancing innovation with financial stability remains a major policy challenge.

15. SWOT Analysis of Financial Inclusion in India

Strengths	**Weaknesses**
Strong regulatory framework	Regional disparities
PMJDY success	Low financial literacy
Aadhaar ecosystem	Dormant accounts
UPI leadership	Limited formal credit
Digital Public Infrastructure	Digital divide
Opportunities	**Threats**
Artificial Intelligence	Cyber fraud
Digital Rupee	Data privacy risks
FinTech innovation	Digital exclusion
Green Finance	Increasing cybercrime
International expansion of UPI	Financial instability from poorly regulated innovations

16. Discussion

The analysis demonstrates that financial sector reforms have fundamentally transformed India's financial landscape by shifting the focus from institution-centric banking to citizen-centric financial inclusion. Liberalization and prudential reforms strengthened banking efficiency, while digital public infrastructure enabled large-scale inclusion through technology. PMJDY, Aadhaar, UPI, DBT, Payment Banks, Small

Finance Banks, and fintech innovations have together created an ecosystem that is widely regarded as a global model for inclusive digital finance.

However, the study also highlights that financial inclusion should be viewed as a multidimensional process encompassing access, usage, quality, and financial capability. Persistent regional disparities, inactive accounts, unequal access to credit, digital illiteracy, gender gaps, and cybersecurity threats continue to limit the effectiveness of financial inclusion initiatives. Addressing these challenges requires coordinated efforts involving regulators, financial institutions, technology providers, educational institutions, and local communities.

Furthermore, the emergence of Artificial Intelligence, Central Bank Digital Currency (CBDC), digital lending platforms, and account aggregator frameworks offers significant opportunities to deepen financial inclusion. At the same time, these innovations require robust regulatory oversight, consumer protection, and cybersecurity safeguards to ensure that technological advancement contributes to equitable and sustainable financial development

17. Policy Recommendations: The Way Forward

Despite significant progress in financial inclusion, India must continue to strengthen its financial architecture to ensure that access to financial services translates into meaningful and sustainable financial participation. The following policy recommendations are proposed.

17.1 Strengthen Digital Infrastructure

Expanding high-speed internet connectivity, improving mobile network coverage, and ensuring reliable electricity supply in rural and remote areas should remain a national priority. Universal digital infrastructure is fundamental to the success of digital financial inclusion.

17.2 Promote Financial Literacy

Financial literacy programmes should be expanded through schools, colleges, universities, self-help groups (SHGs), Panchayati Raj Institutions, and community organisations. Training should focus on digital banking, responsible borrowing, savings, investments, insurance, pensions, and cyber safety.

17.3 Improve Women's Financial Inclusion

Policies should encourage women's ownership and active use of financial products by expanding women-centric financial products, increasing digital literacy among women, promoting women entrepreneurs, strengthening SHG-bank linkage programmes, improving access to collateral-free credit.

17.4 Enhance MSME Credit Access

Financial institutions should adopt alternative credit assessment models using digital transaction histories, GST records, UPI payment data, and account aggregator frameworks. This can improve formal credit access for MSMEs with limited collateral.

17.5 Expand Business Correspondent (BC) Networks

Business Correspondents continue to play a vital role in extending banking services to remote villages. Banks should strengthen BC training, technological support, remuneration, and monitoring to improve service quality.

17.6 Strengthen Cybersecurity

With increasing digital transactions, financial institutions must invest in Artificial Intelligence-based fraud detection, real-time transaction monitoring, customer awareness campaigns, stronger authentication mechanisms, continuous cybersecurity audits.

17.7 Improve Consumer Protection

Financial inclusion must be supported by effective consumer protection through transparent pricing, faster grievance redressal, stronger ombudsman mechanisms, simplified dispute resolution, improved data privacy safeguards.

17.8 Promote Responsible Digital Lending

The rapid growth of digital lending requires stronger regulatory oversight, transparent loan conditions, responsible lending practices, protection against predatory lending, improved borrower education.

17.9 Strengthen Financial Inclusion among Farmers

Agricultural finance should be expanded through improved Kisan Credit Card coverage, digital agricultural finance, weather-indexed insurance, affordable crop loans, financial advisory services.

17.10 Encourage FinTech Innovation

The RBI should continue promoting innovation through regulatory sandboxes while ensuring financial stability and consumer protection. Collaboration between banks and fintech companies can improve efficiency and outreach.

17.11 Promote Digital Rupee Adoption

The Central Bank Digital Currency (CBDC) has the potential to enhance payment efficiency, reduce transaction costs, and support financial inclusion. Gradual expansion with adequate public awareness and robust cybersecurity measures will be essential.

17.12 Improve Financial Inclusion Measurement

Future financial inclusion assessments should incorporate qualitative indicators such as account usage, financial well-being, customer satisfaction, financial resilience, digital capability. Such measures would provide a more comprehensive understanding of financial inclusion than account ownership alone.

18. Conclusion

Financial sector reforms have fundamentally transformed the structure and functioning of India's financial system over the past three decades. Beginning with the liberalisation measures introduced in 1991, the reform process has enhanced banking efficiency, strengthened prudential regulation, improved competition, and integrated the Indian financial sector with the global economy. While the initial phase of reforms primarily focused on institutional efficiency and financial stability, subsequent policy initiatives increasingly emphasized financial inclusion as a means of achieving equitable and sustainable economic development.

The study demonstrates that financial inclusion in India has witnessed unprecedented progress through initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), Aadhaar-enabled services, Unified Payments Interface (UPI), Direct Benefit Transfer (DBT), India Stack, Payment Banks, Small Finance Banks, Business Correspondents, and digital banking platforms. These initiatives have significantly expanded access to formal financial services, particularly among rural households, women, low-income groups, and small enterprises. The rapid growth of digital payments and the increasing integration of technology into financial service delivery have positioned India as a global leader in digital financial inclusion.

The analysis further indicates that the success of financial inclusion should not be evaluated solely by the number of bank accounts opened but by the effective utilisation of financial services. Active usage of savings accounts, formal credit, insurance, pension products, and digital payments is essential for achieving genuine financial empowerment. Persistent challenges such as regional disparities, digital exclusion, gender inequality, inadequate financial literacy, cybersecurity risks, dormant accounts, and limited access to institutional credit continue to constrain inclusive financial development.

The findings suggest that the future of financial inclusion in India will increasingly depend on the effective integration of technology, regulation, financial literacy, and consumer protection. Emerging innovations such as Artificial Intelligence, Central Bank Digital Currency (CBDC), Digital Public Infrastructure (DPI), Account Aggregator systems, and fintech partnerships offer significant opportunities to deepen financial inclusion. However, these opportunities must be accompanied by robust regulatory frameworks that ensure financial stability, data privacy, cybersecurity, and consumer confidence.

In conclusion, financial sector reforms have established a strong foundation for inclusive finance in India. Continued policy innovation, institutional strengthening, technological advancement, and targeted interventions for vulnerable groups will be essential for transforming financial inclusion into genuine economic empowerment. Such an approach will not only strengthen India's financial system but also contribute significantly to inclusive growth, poverty reduction, employment generation, and the achievement of the Sustainable Development Goals (SDGs).

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