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India's Journey of Financial Inclusion: From Policy to Empowerment

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ABSTRACT

*India's commitment to financial inclusion has been at the core of its development strategy over the past few years. Though this journey reflects a slow but determined shift from branch-led expansion of the rural banking system in the 1970s to the creation of one of the world's most advanced digital payment ecosystems by 2025which today acts as a model to study for other nations. Key factors behind this amazing transformation are **Pradhan Mantri Jan Dhan Yojana (PMJDY)**, the **Aadhaar-enabled identity system**, and the **Unified Payments Interface (UPI)**—which together form the **JAM trinity**. This paper studies the historical evolution, scholarly articles and policy literature, and analyzes secondary data of RBI, NITI Aayog, and World Bank sources, to evaluate the outcomes of India's financial inclusion journey and the progress made over a decade. While account penetration has exceeded **80% of adults** and over **55 crore Jan Dhan accounts** have been opened, persistent gaps remain in account operational activity, gender equity in credit access, last-mile connectivity, and consumer protection. The study concludes by highlighting policy implications for deepening meaningful and sustainable financial inclusion.*

Keywords: Financial Inclusion, India, PMJDY, JAM Trinity, UPI, Digital Payments, Banking, Economic Development.

INTRODUCTION

Financial inclusion, which is an important tool for social and economic empowerment of underserved populations, generally refers to ensuring accessible and affordable financial products and services, such as savings, credit, insurance, and digital payments to them.

India's journey towards financial inclusion began in 1969 with the nationalization of banks to extend banking services to rural areas and the underserved population. The other efforts included the introduction of a regional rural bank in 1975 and the expansion of the micro credit scheme in 2000. Though these initiatives made some positive contributions but they fell short in delivering quality services and sustainable usage. The launch of the flagship scheme **PMJDY in 2014** made substantive progress in the journey of financial inclusion, along with Aadhaar-enabled e-**KYC** and the **UPI**. Low-cost digital infrastructure coupled with policy interventions, India have built what can be described as a **"digital public infrastructure" (DPI)** model.

UPI: The Catalyst For Financial Inclusion:

UPI has made digital payment a part of daily life for the common people of the country who remained financially excluded. It brought ease, speed, and safety to the smallest transactions also. The benefits it offers are:

- **Unified App for All Finances:** Managing finances is straightforward. Users can connect all their accounts through a single app instead of using multiple platforms.
- **Secure and Fast Transactions:** Payments are processed swiftly and securely with two-step verification.
- **Privacy Prioritized:** Users don't need to share sensitive banking information. A UPI ID suffices, minimizing risks.
- **QR Code Ease:** Making payments with UPI is as easy as scanning a QR code, which accelerates transactions at stores and service locations.
- **Eliminating Cash-On-Delivery Issues:** UPI simplifies online shopping by removing the need to have cash ready for deliveries.
- **Comprehensive Payment Options:** Individuals can pay bills or recharge their phones from the comfort of their homes.
- **Assistance at Your Fingertips:** Any problems or complaints can be reported directly for a prompt resolution.

India's journey towards financial inclusion as of today consists of both achievements and challenges. The **RBI's Financial Inclusion Index,** which measures the extent of financial inclusion in the country, rose to **67.0 in 2025** from **53.9 in 2021**, showing significant progress across all parameters like access, usage, and quality. Today, UPI transactions are part of everyday life, and insurance and credit are also penetrating among the poor. However, despite this, nearly **23% of accounts remain inactive**, and significant regional and gender disparities persist across India. This paper reflects on this journey, evaluates outcomes, and suggests pathways forward for inclusive and sustainable financial inclusion.

LITERATURE REVIEW

Research on financial inclusion in India has evolved significantly in the past decade, providing robust empirical evidence and analytical insights about access, usage, determinants, and outcomes. The following themes and findings emerge from the academic literature:

Early Empirical Studies

Burgess and Pande (2005) concluded that the expansion of rural branches in India from 1977 to 1990 significantly contributed to the reduction of poverty by providing increased access to credit. Similarly, government policies, such as the **Lead Bank Scheme** and **priority sector lending**, also helped in the expansion of branches

However, studies also pointed out that accounts often remained dormant, which shows a gap between access and its effective use.

NABARD (2017) and Sinha (2009) were of the view that Microfinance and SHGs were crucial in the initial phase, as with the help of SHGs, women's savings were mobilized and their access to credit improved.

Measurement of Financial Inclusion

Sarma (2008) used a **composite index** to measure financial inclusion, focusing on its access, availability, and usage. **Chakravarty and Pal (2010)** applied the same framework to Indian states, which showed stark **regional disparities between states** as southern and western states were well ahead of northern and eastern states in financial inclusion.

The World Bank's **Global Findex surveys (2011, 2014, 2017, 2021)** substantiate India's exemplary progress in finance inclusion. Account ownership jumped from **35% in 2011** to **over 80% by 2021**, largely driven by the flagship scheme PMJDY. However, **42% of accounts in 2017**, primarily consisting of women and rural poor, were inactive.

Impact of Digital Initiatives

The policies of the government, such as Aadhaar, UPI, and AePS, have significantly reduced transaction costs and enabled large-scale DBT in India, as reported by **KPMG (2015)** and the **National Payments Corporation of India (NPCI)**. **Gupta et al. (2021)** found that the PMJDY accounts during the COVID-19 pandemic acted as a cushion for them as they received timely relief payments.

Nevertheless, **Ozili (2021) and the IMF (2021)** opined **digital divide** persists. Low access to smartphones, lack of connectivity, and digital illiteracy still act as impediments that restrict effective usage for marginalized groups.

Gender, Social, and Regional Dimensions

Sahoo & Bhunia (2017) and CGAP (2020) were of the view that in account ownership, the gender gap has been significantly narrowed down; however, gaps in **credit access and control over account operations** remain. Social divides along caste and education lines also continue to shape outcomes.

Barriers and Unintended Consequences

Ghosh (2013) and Sane & Thomas (2015) flagged that large accounts opened under PMJDY were **zero-balance accounts,** and inclusion cannot be measured solely by account numbers. **NBER (2022)** emphasized improved consumer protection, grievance redressal, and financial literacy.

Summary

The study of different literature signifies India's financial inclusion drive has garnered global acclaim, but sustainable inclusion requires focusing not only on **access** but also on its **usage quality, literacy, regional equity, and consumer welfare.**

RESEARCH METHODOLOGY

This paper is based on secondary data and uses a **descriptive-analytical approach**.

Data Sources: The data have been primarily sourced from the Financial Inclusion Index of RBI, PMJDY dashboards, payment statistics of NPCI, UIDAI Aadhaar data, Ministry of Finance reports, NITI Aayog strategies, World Bank Findex, and academic journals.

Sampling Frame: It consists of Milestones between 1969 and 2025, focusing on branch expansion, PMJDY, JAM trinity, UPI, and complementary schemes like PMSBY, PMJJBY, APY, and MUDRA loans.

Analysis: Trends in account ownership, digital transactions, gender inclusion, and rural-urban differentials also A mixed-methods analysis combining quantitative indicators with qualitative synthesis.

Limitations: The research paper's Reliance on secondary sources may under-represent region-specific challenges (e.g., tribal areas, unorganized sector workers).

RESULTS AND FINDINGS

Historical Milestones

1969–2005: During this time, nationalization of banks and expansion of RRBs, SHGs, and microfinance took place, but many accounts were inactive.

2005–2013: In this phase, No-frills accounts were opened, and Banking Correspondents improved outreach, but dormancy remained high.

2014–2025: In this crucial phase, PMJDY, Aadhaar, and UPI created a DPI model, integrating access with usage, and it made substantial changes.

PMJDY Outcomes

As of **August 2025**, **55.98 crore PMJDY accounts** have been opened, of which **women hold 55%**. Deposits crossed **₹2.63 lakh crore**, and **67% of accounts are active**, a substantial improvement compared to earlier years.

Table 1: Growth of PMJDY Accounts (2015–2025)

Year	Accounts (in Crore)
2015	15.0
2017	28.0
2019	35.0
2021	43.0
2023	48.0
2025	55.9

UPI and Digital Payments

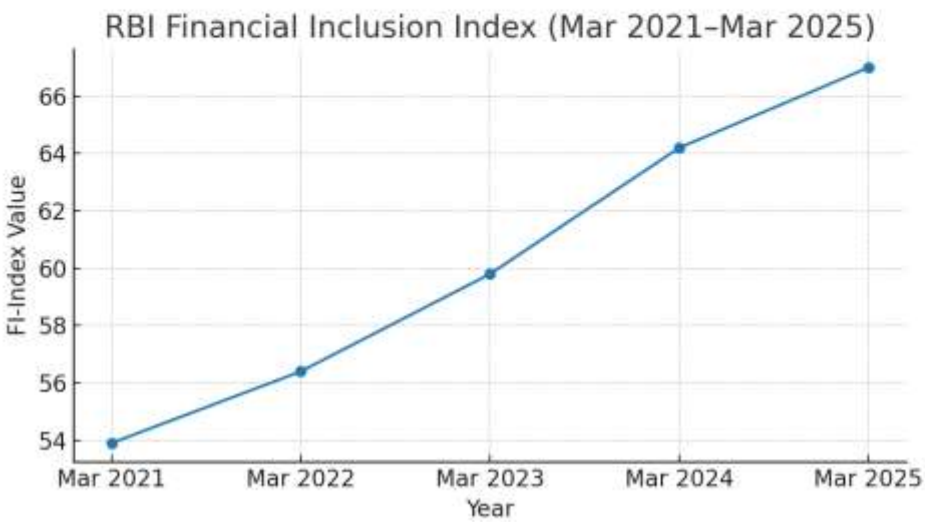
UPI has become the enabler of digital finance. By **June 2025**, monthly UPI transactions reached **24.03 lakh crore** across **19 billion transactions**. In India, **nearly 50% of global real-time payments** are done through UPI.

Table 2: Growth of Digital Transactions (2017–2025)

Year	UPI Transactions (Billion)	Total Digital Transactions (Billion)
2017	0.1	2.0
2019	5.3	8.7
2021	22.3	31.0
2023	74.0	95.0
2025	120.0	150.0

FI-Index Trends

The **Financial Inclusion Index of RBI,** which measures the extent of financial inclusion in India, showed growth from **53.9 in 2021** to **67.0 in 2025**, signaling improvement across all three parameters, which are access, usage, and quality



Complementary Schemes

Insurance: Government schemes like PMSBY have covered **50 crore** citizens, and PMJJBY covered **23 crore** Indians.

Pensions: Atal Pension Yojana, which was focused on the unorganized sector, enrolled **7.65 crore** people, out of which 48% are women.

Credit: Women and the unorganized sector received **54 crore loans** through the MUDRA scheme of the government.

Gender and Social Inclusion

The majority of accounts opened under PMJDY belong to women. However, some problems persist, such as credit access, entrepreneurship loans, and digital confidence among women, the elderly, and marginalized groups.

DISCUSSION

Today, India's model of digital public infrastructure present scale and affordability unmatched globally. still, some challenges persist:

- **Dormancy: 23% of accounts** remain inactive.
- **Re-KYC:** Millions of accounts require re-verification to ensure compliance.
- **Digital Divide:** In India, Smartphone penetration and digital literacy remain uneven in different parts of the country.
- **Agent Network Challenges:** Liquidity and cash-in/cash-out issues reduce reliability.
- **Consumer Protection:** Cyber fraud and grievance act as major concerns in this era.

POLICY IMPLICATIONS AND RECOMMENDATIONS

- **Incentivize Active Use:** Incentives should be linked to transaction activity, not just account opening, to serve the purpose.
- **Simplify Re-KYC:** The KYC norms also need to be simplified, like Aadhaar-based e-KYC and video KYC, to reduce customer burden.
- **Strengthen Consumer Protection:** a faster grievance redressal mechanism and improved safeguards against fraud need to be addressed.
- **Support Last-Mile Infrastructure:** Improve BC economics, connectivity, and liquidity.
- **Promote Digital Literacy:** Digital literacy needs to be widely promoted in the country by expanding campaigns in vernacular languages.
- **Broaden Product Range:** the products offered need to be increased**,** such as micro-insurance, pensions, and savings products tailored to the needs of informal workers.
- **Track Quality Metrics:** indicators like **active usage, credit access, and financial resilience** need to be emphasized over account opening numbers alone.

CONCLUSION

The journey of India from **bank nationalization in 1969** to **24 lakh crore monthly UPI transactions in 2025** shows a remarkable story of transformation. While universal account access to people has been achieved, true inclusion will depend on deepening usage, strengthening consumer protection, and addressing digital divides. The next focus of policymakers should be on **the quality, trust, and sustainability** of financial inclusion so that it becomes a driver of long-term socio-economic empowerment. The path ahead will determine whether India achieves true universal and meaningful access to affordable financial services.

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