



RETAIL BANKING IN INDIA: DIVERSIFIED PATHWAYS TO FINANCIAL INCLUSION

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Article DOI: <https://doi.org/10.36713/epra23701>

DOI No: 10.36713/epra23701

ABSTRACT

Financial inclusion is widely acknowledged as a fundamental catalyst for sustainable and equitable economic development, especially in developing nations where formal financial services are often inaccessible. In emerging economies like India, where a substantial proportion of the population remains unbanked or underbanked, retail banking, with its client-focused approach and broad outreach, plays a pivotal role in bringing such financially marginalized and underserved populations into the formal financial system. Leveraging secondary data from official government surveys, financial institutions' documentation, and academic research, this paper examines how retail banks contribute in multiple dimensions to promoting financial inclusion. Through a detailed analysis, the article explores how retail banks serve as conduits for financial integration, helping to increase access to essential financial tools for people from diverse socio-economic backgrounds, including rural populations, women, low-income families, and microenterprises. The paper further investigates the impact of key government initiatives and policy frameworks that support the expansion of retail banking services. The study also delves into the role of technological innovations in enhancing the reach and effectiveness of retail banking. Moreover, the article identifies and critically analyzes the challenges that hinder the full potential of retail banking in promoting financial inclusion. In conclusion, the paper emphasizes that retail banking, when supported by the right combination of policies, technological innovations, and public-private collaborations, can be a powerful tool in fostering financial inclusion and overcoming existing barriers.

KEYWORDS: Retail Banking, Financial Inclusion, Digital Banking, Financial Literacy, Economic Development, Banking Outreach

1. INTRODUCTION

In recent years, financial inclusion has emerged as a vital pillar in advancing equitable societies, easing poverty, and underpinning long-term economic progress. At its heart, the concept is about enabling individuals and businesses, especially those in underserved or marginalized regions, to connect with and utilize affordable, efficient financial services. These foundational offerings include credit, insurance, savings, and payment tools. Widening access to such essential resources not only empowers individuals and enterprises but also ignites broader economic development, particularly amid societal and structural transformation.

In this context, retail banking emerges as a cornerstone in advancing financial inclusion. Retail banks are the primary conduits for integrating the underbanked and unbanked into the formal financial system, offering direct financial services to both individuals and small businesses. While historically retail banking catered predominantly to middle- and upper-income segments, a shift has occurred. The expanding importance of financial inclusion has compelled these institutions to extend their services to a broader, more varied clientele, including low-income individuals, rural populations, and communities with scarce access to conventional banking infrastructure.

Financial inclusion is the principle of ensuring everyone has fair access to core financial services and opportunities. In a country as vast and varied as India, this transcends mere economic policy—it represents a moral duty. Through its widespread presence and customer-driven model, retail banking serves as a critical bridge, bringing unbanked and underbanked individuals into the mainstream financial system. This notion of inclusion is deeply embedded within the larger goals of equitable growth, reducing poverty, and fostering social justice. Empirical research by Beck et al. (2007) highlights how expanding access to financial services optimizes the distribution of resources and enables marginalized populations to engage more confidently in the economy.



Likewise, Sen (2000) regards financial access as a vital "capability," one that amplifies personal autonomy, nurtures freedom, and drives human development.

Financial inclusion and retail banking are interwoven in a mutually reinforcing partnership. Financial inclusion ensures that individuals and businesses, especially those who are underserved or entirely unbanked, have access to vital financial services like loans, savings, insurance, and payment solutions. Meanwhile, retail banking serves as the vehicle delivering this spectrum of services directly to everyday consumers and small enterprises ranging from savings and checking accounts to mortgages, personal loans, credit cards, and digital banking platforms.

In fact, it would not be an exaggeration to assert that through their diversified channels and services, retail banks deliver the strongest approach to attaining full financial inclusion. Thus, through this article, a modest attempt has been made to provide an in-depth examination of how retail banks function as key facilitators of financial inclusion, expanding access to vital financial services for individuals across a wide range of socio-economic groups, including rural communities, women, low-income households, and microenterprises.

2. SURVEY OF EXISTING LITERATURE

Previous research examining the contribution of retail banks to financial inclusion can be categorized into several key thematic areas. One major dimension is the **Expansion of Access through Retail Banking**, which focuses on how increasing the physical presence of bank branches, simplifying account requirements, and creating accessible banking products have enabled wider participation, particularly among rural and low-income populations. Another vital aspect is **Technology Adoption and Retail Banking Innovation**, highlighting how advancements such as mobile banking, digital wallets, Aadhaar-enabled authentication, and the Unified Payments Interface (UPI) have revolutionized service delivery, lowered costs, and improved the convenience and security of financial transactions for underserved customers. A further dimension involves the **Role of Business Correspondents (BCs)**, where retail banks appoint local agents equipped with portable devices like micro-ATMs and biometric readers to provide doorstep banking services in remote and difficult-to-reach areas. These BCs act as critical bridges between formal banking institutions and rural communities, fostering trust and encouraging the shift toward digital and formal financial systems. Finally, the **Government-Backed Retail Banking Schemes** represent a crucial category of studies. These focus on initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Mudra Yojana (PMMY), Stand-Up India, and the Digital India program, which collectively aim to promote universal access to banking, extend collateral-free microcredit to small entrepreneurs, and expand the adoption of digital financial services nationwide.

Expansion of Access through Retail Banking

The expansion of retail banking has been a cornerstone of financial inclusion efforts, especially in rural and underserved areas. A seminal study by **Burgess and Pande (2005)** demonstrated a strong link between the expansion of rural bank branches in India from 1977 to 1990 and a significant decline in rural poverty levels. Their analysis, based on panel data, highlighted that states with a greater increase in bank branches per capita experienced more substantial reductions in poverty, underscoring the role of physical banking infrastructure in promoting inclusive growth. Building on this, **Chakrabarty (2011)** highlighted policy innovations that reduced entry barriers for people with low incomes, notably through the introduction of Basic Savings Bank Deposit Accounts (BSBDAs). These accounts removed the requirement for a minimum balance, which had previously discouraged low-income individuals from engaging with formal financial institutions. By lowering the cost of account ownership, BSBDAs became an accessible entry point for many into the formal banking system. Furthermore, **Mukherjee and Patel (2016)** observed that the easing of Know Your Customer (KYC) norms significantly broadened financial access. Traditional documentation requirements had disproportionately excluded informal sector workers and rural populations. By allowing alternative forms of identification and embracing digital verification methods, regulators made it easier for underserved groups to open bank accounts and engage with the formal economy. Despite initial challenges with account inactivity, **Kumar and Rani (2016)** found that proactive outreach efforts, coupled with digital integration—such as Direct Benefit Transfers (DBTs) and mobile banking notifications—played a crucial role in reactivating dormant accounts. These digital mechanisms not only facilitated better account usage but also created an ecosystem where users began to trust and rely on formal banking channels. Additionally, **Patel and Sharma (2020)** emphasized that the credit linkages offered through these accounts helped reduce rural borrowers' dependence on exploitative informal credit sources such as moneylenders. Affordable and timely credit from formal institutions strengthened the financial resilience of rural households, enabling them to manage consumption needs and invest in income-generating activities.



Technology Adoption and Retail Banking Innovation

The integration of digital technology into retail banking has revolutionized financial service delivery, particularly in underserved and rural markets. **Mor and Ananth (2011)** argue that mobile banking technologies have dramatically lowered the cost of customer acquisition and service delivery for banks. In traditional banking models, physical infrastructure and in-person servicing made outreach to low-income or remote populations financially unfeasible. However, mobile platforms allow financial institutions to reach customers via low-cost, scalable channels, making it viable to serve the bottom of the pyramid. In line with this, **Suri and Jack (2016)** found that mobile money services significantly improved financial behavior among users in developing economies, including India. Their research, based on longitudinal data from Kenya and applicable to similar contexts, showed that mobile banking enhanced savings rates and enabled users to better absorb and manage financial shocks—such as sudden health expenses or job losses—through improved access to liquidity and remittance services. Following the Digital India initiative, there has been a sharp uptick in digital financial transactions. **Gupta and Jain (2017)** documented a notable surge in mobile-based financial activity post-2014, attributing this to increased smartphone penetration, reduced data costs, and government push for digital inclusion. This shift has brought millions into the digital financial ecosystem, many of whom had previously relied on cash or informal channels. Moreover, **Patil and Sharma (2020)** highlight the transformative impact of the Unified Payments Interface (UPI). Unlike earlier systems that required debit or credit cards, UPI allows instant money transfers using only a smartphone and a bank-linked mobile number. This democratized digital banking and made peer-to-peer and merchant payments accessible even to those without formal financial literacy or infrastructure, including street vendors and gig economy workers. Further innovations in artificial intelligence (AI) have added a new dimension to inclusive banking. **Rao and Dey (2021)** report that AI tools are now used to assess the creditworthiness of "new-to-credit" customers—individuals without traditional financial histories, such as small entrepreneurs, gig workers, and informal labourers. By analysing alternative data such as mobile usage, digital payment behaviour, and social patterns, AI enables banks to extend credit to previously excluded groups.

Role of Business Correspondents (BCs)

According to **Vyas (2014)**, BCs were instrumental in extending banking access to over 80% of previously unbanked villages in states like Bihar and Odisha. These agents bridged the geographical and socio-economic gaps that had long prevented rural populations from participating in formal financial systems. The sheer penetration of BCs in rugged terrains illustrates their value in achieving last-mile connectivity in the delivery of financial services. **Bansal (2016)** highlighted the unique role BCs play as trusted intermediaries between the banking system and rural customers. Since BCs are often drawn from the local community, they are culturally and linguistically aligned with the population they serve. This enhances trust and familiarity, making it easier for customers—especially those with low literacy levels—to engage with banking products and services. As the first point of contact, BCs are not only facilitators of transactions but also serve as informal financial educators, promoting savings habits and digital financial literacy. The integration of technology into the BC model has further amplified its effectiveness. **Patel and Kumar (2020)** noted that the use of micro-ATMs—portable devices linked to bank servers and equipped with biometric authentication—has encouraged rural households to transition from cash-only transactions to digital payment methods. This shift has not only improved the transparency and traceability of financial flows but also reduced leakages in welfare transfers and improved targeting of government subsidies. Furthermore, **Banerjee and Duflo (2019)** found that tech-enabled BC models, which include biometric verification and instant receipts, reduced transaction time and fraud, thus encouraging customers to transition from informal to formal banking systems. These models improve both customer experience and institutional efficiency.

Government-Led Initiatives and Financial Inclusion

The Indian government has played a crucial role in expanding financial inclusion through targeted schemes that leverage the existing retail banking infrastructure. Among the most transformative of these is the Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in 2014 with the goal of providing universal access to banking facilities. **Kumar and Rani (2016)** found that PMJDY significantly improved account ownership, particularly among low-income and rural populations. The rapid scale-up of the scheme—facilitated by simplified Know Your Customer (KYC) norms and Aadhaar-enabled identification—led to a surge in financial inclusion metrics. However, the researchers also observed two critical challenges: a high incidence of dormant accounts and low transaction activity. Many beneficiaries opened accounts to receive government subsidies or comply with administrative requirements, but did not actively use them for regular banking or savings. This raised concerns about the depth and quality of inclusion, suggesting that mere access does not always translate into meaningful financial participation. In addition to PMJDY, another major policy intervention was the launch of the Micro Units Development and Refinance Agency (MUDRA) scheme in 2015. This initiative aimed to integrate informal and small-scale entrepreneurs into the formal credit system by providing small-ticket, collateral-free loans through the mainstream banking network. **Chattopadhyay (2019)** explored how the MUDRA scheme facilitated access to



finance for informal entrepreneurs, including street vendors, artisans, and micro-enterprises, many of whom had been traditionally excluded from formal credit markets. By routing these loans through retail bank channels, the program not only supported enterprise development but also strengthened the banking relationship of previously unbanked borrowers.

While extensive research has been conducted on various aspects of retail banking, there has been relatively limited and fragmented analysis specifically focused on evaluating the comprehensive role of retail banks in advancing financial inclusion. This highlights the need for a more systematic assessment of how retail banking strategies, technologies, and outreach mechanisms contribute to inclusive financial growth.

3. OBJECTIVE OF THE STUDY

This study sets out to achieve the following specific objectives:

- [a] To analyse the role of retail banks in promoting financial inclusion in India.
- [b] To explore how technological advancements have strengthened the accessibility and efficiency of retail banking services.
- [c] To evaluate the influence of major government initiatives and policy frameworks that have been instrumental in broadening the scope of retail banking.
- [d] To critically assess the persistent challenges that limit retail banks from fully realizing their potential in advancing financial inclusion.

4. RESEARCH METHODOLOGY AND DATABASE

This study employs a combination of descriptive and exploratory methodologies, functioning as a post-facto analysis. The foundation of this study lies entirely in secondary data, meticulously sourced from multiple official Government of India websites including the Ministry of Finance (MoF), Reserve Bank of India (RBI) reports, National Payments Corporation of India (NPCI), Unique Identification Authority of India (UIDAI), Telecom Regulatory Authority of India (TRAI), and reliable media coverage such as The Economic Times to ensure authenticity, accuracy, and reliability. Through this approach, we systematically synthesized existing information such as reports, statistical databases, policy documents, and other government publications to construct a comprehensive understanding of how retail banking interventions have shaped financial access for marginalized groups.

5. ROLE OF RETAIL BANKING IN FINANCIAL INCLUSION

5.1 Banking the Unbanked

Retail banks have played a pivotal role in advancing the financial inclusion agenda in India by directly targeting the unbanked population, especially in rural and semi-urban regions. A cornerstone of this effort has been the Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in 2014, which mandates banks to open Basic Savings Bank Deposit Accounts (BSBDAs) for individuals previously excluded from the formal financial system.

Under PMJDY, millions of bank accounts have been opened with zero minimum balance requirements, simplified Know Your Customer (KYC) norms, and direct linkages to government welfare transfers. As of March 2025, the scheme has achieved remarkable outreach, as shown in Table 1.

Table 1: PMJDY Account Statistics (as of March 2025)

Metric	Value
Total Accounts Opened	51 Crores
Rural Accounts	32 Crores
Women Account Holders	28 Crores
Balance in Accounts	₹2.3 Lakh Crore

Source: Ministry of Finance, Government of India (2025)

The figures reflect a broad-based inclusion effort. Over 62% of accounts are held by individuals in rural areas, affirming that retail banks have effectively extended their services beyond urban centers. Additionally, with 28 crore accounts held by women, the data shows considerable progress toward gender-inclusive financial access—a crucial determinant of household-level economic empowerment.

Moreover, the cumulative balance of ₹2.3 lakh crore across these accounts illustrates not just access but growing usage and trust in the formal banking system. Many of these accounts are now integrated with Direct Benefit Transfer (DBT) mechanisms, ensuring that government subsidies, pensions, and other entitlements reach beneficiaries directly and without leakage.



This large-scale mobilization of the unbanked population into the financial mainstream signifies a paradigm shift in retail banking—from being a profit-driven service model to one that also embraces a development-oriented mandate. The success of schemes like PMJDY demonstrates how state-supported retail banking initiatives, when paired with digital infrastructure and policy incentives, can dramatically alter the landscape of financial inclusion

5.2 Credit Delivery to Small Borrowers

Retail banks provide microcredit, Kisan Credit Cards, and Mudra loans that empower small entrepreneurs, women, and farmers.

Microcredit – Pradhan Mantri MUDRA Yojana (PMMY)

As of the third quarter of fiscal year 2025, small-business loan disbursements under the Pradhan Mantri Mudra Yojana (PMMY) reached an unprecedented ₹3.39 lakh crore, facilitated by a diverse range of financial institutions, including public and private sector banks, microfinance institutions, and non-banking financial companies (NBFCs). Since the scheme's inception in 2015, more than 52.37 crore loans amounting to ₹33.65 lakh crore have been sanctioned, with ₹32.87 lakh crore effectively disbursed to beneficiaries.

According to SBI Research, over 520 million Mudra accounts have been opened over the past decade. A significant demographic trend within this initiative is that 68% of the account holders are women, and nearly half belong to Scheduled Castes (SC), Scheduled Tribes (ST), and Other Backward Classes (OBC). Additionally, the average loan size has seen a marked increase, rising from ₹38,000 in FY2016 to approximately ₹1.02 lakh in FY2025, indicating growing credit appetite and business scaling among borrowers.

The Bank of India alone disbursed over ₹71,364 crore in Mudra loans to 43.65 lakh entrepreneurs, with women entrepreneurs receiving more than 25% of this total, highlighting the scheme's role in supporting gender-inclusive entrepreneurship. The introduction of the new Tarun Plus category, which extends credit up to ₹20 lakh for repeat Mudra borrowers, reflects an effort to support business expansion. As of June 2025, ₹4,930 crore had been sanctioned under this category across 34,697 accounts. Moreover, the disbursal of over 29 crore loans to women under the scheme has played a pivotal role in fostering female entrepreneurship and enhancing financial inclusion across socio-economic segments.

The overall quality of Mudra loans has shown improvement, with gross non-performing assets (NPAs) under PMMY standing at 2.21% in FY2025. However, public sector banks reported comparatively higher average NPAs at 3.6%, underscoring the need for targeted risk management practices within these institutions.

Agricultural Credit – Kisan Credit Cards (KCC)

As of March 2024, there were approximately 7.75 crore active Kisan Credit Card (KCC) accounts in India, with a total outstanding loan amount of ₹9.81 lakh crore. A portion of these accounts is held by farmers engaged in allied sectors such as fisheries and animal husbandry, reflecting the scheme's broader applicability beyond traditional agriculture.

Ground-level credit (GLC) to the agricultural sector has witnessed substantial growth, rising from ₹8.45 lakh crore in FY2014–15 to ₹25.48 lakh crore in FY2023–24. Notably, the proportion of this credit extended to small and marginal farmers increased significantly, from 41% to 57% over the same period, indicating a stronger policy emphasis on financially supporting vulnerable farming communities.

Despite this expansion in agricultural credit, growing signs of financial stress are evident. Non-performing assets (NPAs) under the KCC scheme rose by 42% between FY2020–21 and FY2024–25, reaching ₹97,543 crore as of December 2024. Concurrently, the total outstanding amount associated with operational KCC accounts increased from ₹4.57 lakh crore in FY2021 to ₹5.91 lakh crore by December 2024, suggesting both expanded lending and rising repayment concerns.

On a national scale, the total outstanding credit under KCCs reached ₹10.2 lakh crore by March 2025—up from ₹7.53 lakh crore in 2021—underscoring the growing reliance of farmers on institutional credit. In the state of Punjab, KCC debt rose by ₹3,010 crore over the same period, reaching ₹57,536 crore by March 2025. This increase occurred despite a decline in the number of active accounts, implying a growing per-farmer debt burden and highlighting regional disparities in credit utilization and stress.



MSME Credit

As of March 2025, credit to the Micro, Small, and Medium Enterprises (MSME) sector in India reached ₹40.4 lakh crore, marking a robust year-on-year growth of 25%. This expansion has been largely attributed to sustained policy support and the accelerating adoption of digital financial infrastructure.

Within the framework of priority sector lending, the share of MSME credit as a percentage of Adjusted Net Bank Credit (ANBC) increased from 15.8% in FY2013–14 to 19.3% in FY2023–24, indicating a progressive shift in credit allocation towards the MSME sector over the past decade.

5.3 Technology-Driven Outreach by Retail Banks for Financial Inclusion

Smartphone Penetration & UPI Adoption

Recent data indicate that 85.5% of Indian households possess a smartphone, signifying widespread penetration of mobile technology across both urban and rural regions. Among the youth demographic, UPI (Unified Payments Interface) adoption has reached an exceptional level, with 99.5% reportedly utilizing the platform, reflecting its near-universal acceptance as a preferred mode of digital transaction.

The scale and impact of UPI are further underscored by data from the National Payments Corporation of India (NPCI), which recorded over 106 billion transactions conducted via UPI in 2025, affirming its pivotal role in the country's digital payments infrastructure.

Furthermore, a study by the International Monetary Fund (IMF) highlights UPI's significant contribution to the decline in cash usage across India, emphasizing its transformative effect on financial behavior and inclusion.

Digital Empowerment of MSMEs

Over 73% of Micro, Small, and Medium Enterprises (MSMEs) operating in rural and semi-urban regions of India have reported business growth attributed to the adoption of digital tools, particularly smartphones. Among these technologies, the Unified Payments Interface (UPI) has emerged as the preferred mode of transaction, facilitating greater efficiency and ease in financial operations.

Aadhaar-based Biometric Authentication & e-KYC

During the fiscal year 2024–25, India facilitated over 2,707 crore Aadhaar authentication transactions, including a notable 44.63 crore e-KYC transactions in March 2025 alone. In June 2025, Aadhaar authentications reached 229.33 crore, representing a 7.8% increase compared to June 2024, accompanied by 39.47 crore e-KYC transactions during the same month.

The adoption of face authentication technology has witnessed substantial growth, with 15.87 crore transactions recorded in June 2025—more than three times the 4.61 crore transactions documented in June 2024. This biometric modality is increasingly being integrated across various sectors, with over 100 public and private institutions now utilizing face authentication to ensure secure and efficient service delivery.

According to data from the Unique Identification Authority of India (UIDAI), a total of 102 crore face authentication transactions were completed in FY 2024–25, accounting for over 78% of all cumulative face-auth transactions to date. Furthermore, July 2025 marked a record high with 19.36 crore face-authentication transactions—nearly quadrupling the 5.77 crore recorded in July 2024.

In addition, the scope of offline Aadhaar-based e-KYC is being extended to include Recurring Deposit (RD) and Public Provident Fund (PPF) accounts. This expansion supports the broader objective of fostering paperless onboarding processes and advancing financial inclusion across the country.

Digital Public Infrastructure & Inclusion

Aadhaar-enabled platforms, such as the Aadhaar-enabled Payment System (AePS), have significantly enhanced access to financial services in rural India. As of June 2024, more than 85% of the rural population engaged with the formal financial system through these mechanisms, reflecting their critical role in local banking inclusion.

The continued integration of the "JAM trinity"—comprising Jan Dhan accounts, Aadhaar identification, and mobile banking—has been instrumental in advancing financial inclusion. This framework facilitates paperless and presence-less verification, even via mobile devices, thereby streamlining service delivery and reducing barriers to access for underserved populations.



5.4 Financial Literacy Programs by Retail Banks for Financial Inclusion

Retail banks in India have played a pivotal role in advancing financial literacy as a means of strengthening financial inclusion, especially among rural and underserved communities. These initiatives commonly involve conducting awareness campaigns, distributing educational materials, and forming strategic partnerships with non-governmental organizations (NGOs) and government agencies to enhance outreach and impact.

According to the National Centre for Financial Education (NCFE, 2024), more than 1.5 crore individuals participated in bank-led financial literacy camps across the country during the fiscal year 2023–24. Complementing these efforts, the Reserve Bank of India's Financial Literacy and Credit Counselling Centres (FLCCs) organized over 45,000 literacy sessions in 2023, reaching more than 12 lakh individuals in rural and semi-urban regions (RBI, 2024).

The effectiveness of these programs is further supported by findings from the Financial Inclusion Insights (FII) Survey (2023), which reported that 63% of rural banking customers who attended such initiatives exhibited improved understanding of digital banking and increased their usage of mobile banking applications and digital wallets.

Retail banks have also intensified collaboration with civil society actors to extend their reach. Notably, the State Bank of India (SBI) partnered with over 100 NGOs in 2024 to deliver community-based workshops, collectively reaching over 20 lakh individuals (SBI Annual Report, 2024).

Evidence of the tangible impact of these literacy efforts is provided by a 2023 study conducted by MicroSave Consulting, which found that bank-led financial education interventions led to a 30% increase in account activity among newly banked rural customers, thereby reducing the incidence of dormant accounts.

Furthermore, a significant focus has been placed on promoting women's financial empowerment. The PMJDY Women's Outreach Initiative (2023), spearheaded by various retail banks, successfully engaged over 28 crore women, enhancing their ability to access and utilize formal banking services effectively.

5.5 Business Correspondents (BCs) by Retail Banks for Financial Inclusion

Retail banks in India have strategically leveraged the Business Correspondent (BC) model to extend financial services to remote and underserved regions. Acting as local banking agents, BCs deliver doorstep services using portable technologies such as micro-ATMs and Aadhaar-enabled biometric authentication devices. These tools facilitate essential banking functions—including deposits, withdrawals, cash transfers, and account opening—thus reducing reliance on traditional brick-and-mortar bank branches.

According to the Reserve Bank of India Financial Inclusion Report (2023), more than 5.5 lakh active Business Correspondents were operational across India, serving over 1.5 lakh villages that otherwise lack access to formal banking infrastructure (RBI, 2023). The BC model has significantly improved financial access in states with historically low banking penetration; for instance, over 80% of previously unbanked villages in Bihar, Odisha, and Uttar Pradesh now benefit from BC-facilitated services (Vyas, 2014).

The scale and adoption of this model are further reflected in data from the Ministry of Finance (2024), which reports that BCs facilitated over 450 crore transactions in 2023–24, with a cumulative transaction value exceeding ₹4.5 lakh crore. This growing usage indicates increased public confidence in and reliance on doorstep banking services.

Empirical studies, such as those conducted by MicroSave Consulting (2023), have highlighted the efficiency gains associated with BC services, reporting a 40% reduction in average transaction time compared to conventional branch visits. Additionally, the widespread use of Aadhaar-based biometric authentication—accounting for over 90% of BC transactions (UIDAI, 2024)—has enhanced the security and integrity of financial transactions while mitigating fraud.

Furthermore, the Business Correspondent model has played a vital role in facilitating credit outreach. According to NABARD (2023), banks operating in partnership with BCs have extended credit worth ₹1.2 lakh crore to small borrowers and farmers, thereby contributing to rural financial inclusion and improved access to formal credit mechanisms.



5.6 Government and Regulatory Support for Financial Inclusion

Reserve Bank of India (RBI) Initiatives

The Reserve Bank of India (RBI) has formalized the Priority Sector Lending (PSL) framework, requiring commercial banks to allocate at least 40% of their total lending to specified priority sectors. These sectors encompass agriculture, micro, small, and medium enterprises (MSMEs), as well as socially and economically disadvantaged groups (RBI, 2023). This policy functions as a regulatory instrument aimed at promoting more equitable credit distribution and fostering inclusive economic development.

To improve financial outreach in rural areas, the RBI has also mandated the expansion of banking infrastructure by directing banks to establish additional branches in underserved regions. By March 2024, the total number of rural bank branches had surpassed 56,000, demonstrating a sustained increase and reflecting ongoing efforts to reduce the urban-rural divide in banking access (RBI Financial Inclusion Report, 2023).

Furthermore, the RBI launched the Financial Inclusion Index (FII) in 2021 to provide a comprehensive measure of financial inclusion across three key dimensions: access, usage, and quality of financial services. The FII rose from 53.9 in March 2021 to 64.9 in March 2023, signifying notable progress in expanding and enhancing financial service delivery across the country (RBI, 2023).

Government Schemes Supporting Financial Inclusion

Launched in August 2014, the Pradhan Mantri Jan Dhan Yojana (PMJDY) has served as a foundational initiative in advancing financial inclusion across India. As of March 7, 2025, the scheme facilitated the opening of approximately 55.02 crore bank accounts, with women comprising nearly 56% of account holders. This gender distribution underscores the scheme's critical role in fostering inclusive access to formal financial systems, particularly among women.

The Pradhan Mantri Mudra Yojana (PMMY) has been equally significant in enhancing economic participation within the informal sector. By 2024, the initiative had extended over ₹17 lakh crore in largely collateral-free loans to more than 30 crore micro-entrepreneurs. These funds have supported the expansion of small-scale enterprises and have strengthened financial access for low-income and self-employed individuals (Mudra Annual Report, 2024).

Targeting traditionally underrepresented groups, the Stand-Up India Scheme has promoted entrepreneurial activity among Scheduled Castes (SC), Scheduled Tribes (ST), and women. As of 2024, the program had facilitated more than 1.5 lakh loans amounting to ₹35,000 crore, enabling broader participation in the formal financial and business ecosystem (Ministry of Finance, 2024).

In addition, the Digital India initiative has played a transformative role in advancing digital financial inclusion. With Unified Payments Interface (UPI) transactions exceeding 106 billion in 2025 and mobile banking users surpassing 800 million by 2024, the initiative reflects widespread adoption of digital payment systems and infrastructure across diverse population segments (NPCI, 2025; TRAI, 2024).

6. BARRIERS LIMITING THE EFFECTIVENESS OF RETAIL BANKING IN EXPANDING FINANCIAL INCLUSION

One of the most critical challenges retail banks face is **low financial literacy** among the populations they aim to serve. A large segment of people, particularly in rural and low-income areas, lacks a basic understanding of financial concepts such as savings, credit, interest rates, insurance, and the use of digital banking tools. Without this foundational knowledge, individuals are often unable to make informed financial decisions or recognize the benefits of formal banking services. This knowledge gap significantly hampers the uptake of financial products and services, making financial inclusion efforts less effective.

Another major barrier is the **lack of adequate infrastructure**, especially in remote or underdeveloped regions. Reliable access to electricity, internet connectivity, and transportation is essential for delivering consistent banking services. However, in many areas, frequent power outages and poor mobile or internet coverage make it difficult for both banks and customers to engage in financial transactions. This digital and physical infrastructure gap limits the ability of banks to extend their reach and hinders the scalability of inclusive financial models.

Retail banks also struggle with **high operational costs** when attempting to serve low-income and rural customers. These customer segments typically generate low transaction volumes and maintain small account balances, making traditional branch-based service models financially unviable. The costs associated with establishing and



maintaining branches, hiring staff, and managing logistics in sparsely populated areas are substantial. As a result, many banks hesitate to expand into underserved markets unless innovative, cost-efficient service delivery mechanisms are developed.

In addition to these structural issues, a **deep-rooted trust deficit** persists among many underserved communities toward formal financial institutions. Past experiences of financial exclusion, fraud, or exploitative practices have led to widespread skepticism. Many individuals prefer informal financial arrangements, such as savings groups or local money lenders, which they perceive as more accessible and trustworthy. Overcoming this distrust requires a sustained commitment by banks to transparency, community engagement, and customer protection.

Finally, **limited access to technology and low levels of digital literacy** significantly obstruct the use of modern financial services. While digital banking and mobile financial solutions offer cost-effective ways to reach the unbanked, many people still lack access to smartphones, mobile data, or even basic mobile phones. Furthermore, those who do have access often lack the digital skills needed to navigate banking apps, understand cybersecurity risks, or troubleshoot technical issues. This digital divide disproportionately affects vulnerable groups such as the elderly, women, and individuals with limited education, reinforcing existing barriers to financial inclusion.

7. FUTURE OUTLOOK

FinTech Collaborations: Collaborations between FinTech companies and retail banks have the potential to enhance service delivery and broaden financial access. Innovative startups that provide AI-powered services—such as micro-lending, alternative credit scoring, and digital wallet solutions—can complement traditional banking efforts, particularly in underserved markets.

Emergence of Neo-Banks: Neo-banks and digital-only financial institutions are reshaping the retail banking landscape by delivering fully online services with lower operational costs. These digital-first models can offer more accessible and user-friendly alternatives to conventional banking, especially for tech-savvy and cost-sensitive consumers.

Personalized Banking Through Data Analytics: By leveraging data analytics, retail banks can tailor financial products to meet the specific needs of low-income customers. Insights drawn from transaction histories and behavioural data allow banks to design customized offerings, improve risk assessment, and enhance customer engagement.

8. POLICY RECOMMENDATIONS FOR ENHANCING THE ROLE OF RETAIL BANKS IN PROMOTING FINANCIAL INCLUSION

Strengthen Business Correspondent (BC) Infrastructure: Business Correspondents (BCs) serve as vital last-mile agents connecting formal financial institutions with remote and underserved populations. To enhance their effectiveness, governments and regulators should provide better incentives, such as performance-based commissions, insurance coverage, and access to affordable technology. Additionally, training programs and standardized guidelines should be implemented to ensure high-quality service delivery and compliance with financial regulations. Supporting the expansion of the BC model will help retail banks reach areas where setting up physical branches is not economically viable.

Enhance Digital Infrastructure: Reliable internet and mobile connectivity are essential for delivering digital financial services, especially in rural and low-income areas. Policymakers should prioritize investments in digital infrastructure by expanding mobile network coverage and ensuring affordable access to data services. This can be achieved through public-private partnerships and subsidies targeting telecom providers to expand into underserved regions. Improved digital connectivity will enable smoother digital banking transactions, mobile wallet use, and online customer support, thereby increasing access and usage of financial services.

Promote Financial Literacy: Financial education should be embedded into school curricula and reinforced through nationwide awareness campaigns targeted at both youth and adults. Programs should cover basic financial concepts, digital banking tools, fraud prevention, and the long-term benefits of formal savings and credit. Mass media campaigns, community workshops, and partnerships with civil society organizations can play a key role in disseminating this knowledge. Empowering citizens with financial literacy will increase trust in the banking system and promote informed use of financial products.



Encourage Private Sector Involvement: Governments and regulators should create a conducive environment for collaboration between retail banks and financial technology (FinTech) firms. Policy frameworks should support open banking initiatives, data sharing (with consent), and innovation sandboxes where new financial solutions can be tested with regulatory oversight. Incentivizing such partnerships will allow retail banks to leverage FinTech capabilities in areas such as digital lending, AI-driven credit scoring, customer onboarding, and mobile payments, thereby improving reach, efficiency, and service quality.

Monitor Financial Inclusion Progress Using Data Analytics: To ensure that financial inclusion strategies are effective and adaptive, policymakers must establish systems for regular monitoring and evaluation. Using data analytics, governments and central banks can track key indicators such as account ownership, transaction activity, credit access, and demographic penetration. Real-time insights can help identify gaps, detect regional disparities, and refine inclusion policies accordingly. Data-driven governance ensures that interventions remain targeted, efficient, and aligned with inclusion goals.

9. CONCLUSION

Retail banking plays a pivotal role in advancing financial inclusion in India, serving as a key driver for economic empowerment and equitable growth. By offering essential financial services such as savings accounts, credit, insurance, and digital payment solutions, retail banks act as a bridge between the formal financial system and millions of underserved or unbanked individuals, particularly in rural and semi-urban areas. In recent years, the landscape of retail banking has undergone a dramatic transformation, largely propelled by innovative technology, proactive regulatory frameworks, and customer-centric business models. The advent of digital platforms, mobile banking, biometric authentication (like Aadhaar), and the Unified Payments Interface (UPI) has drastically lowered the cost and increased the accessibility of banking services. These advancements have enabled retail banks to expand their reach far beyond traditional brick-and-mortar branches, delivering financial services to remote corners of the country. Furthermore, government initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), direct benefit transfers (DBT), and digital identity infrastructure have laid the foundation for broader financial inclusion. Regulatory support from the Reserve Bank of India (RBI) and initiatives encouraging digital literacy have also helped create a more enabling environment for inclusive banking.

However, despite these significant strides, systemic challenges remain. A large section of the population still lacks adequate financial literacy, access to credit remains uneven, and many small businesses struggle to meet the formal requirements for financing. Technological infrastructure, particularly in rural areas, continues to pose limitations. Additionally, building trust in digital financial systems among first-time users is an ongoing challenge. To overcome these hurdles, a multi-pronged approach is essential. Strategic policy support must be sustained and strengthened, especially in areas such as digital infrastructure development, financial education, and inclusive credit policies. Public-private partnerships can play a crucial role in scaling solutions that combine social impact with sustainable business models. Collaborative efforts between banks, fintech companies, NGOs, and community organizations can help design and deliver products that truly meet the needs of diverse user segments. Retail banking, therefore, remains a powerful vehicle for promoting financial inclusion. With the right mix of enabling policies, technological innovation, and grassroots engagement, retail banks have the potential to significantly narrow the financial divide, promote entrepreneurship, and foster inclusive economic development. The continued evolution of digital banking—driven by data analytics, AI, mobile-first solutions, and embedded finance—holds immense promise to further accelerate the reach and effectiveness of financial services.

In conclusion, while the path to universal financial inclusion is complex and challenging, it is also filled with opportunities. India stands at a unique inflection point, where the convergence of policy vision, technological capability, and institutional innovation can transform retail banking into a catalyst for inclusive prosperity. By staying committed to innovation, collaboration, and social impact, India can move decisively toward a future where every citizen has access to the tools and services they need to participate fully in the economic life of the nation.

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