Rajeshwar Rao: Moving the boundaries of financial inclusion - a regulatory perspective

Address by Mr Rajeshwar Rao, Deputy Governor of the Reserve Bank of India, at the HSBC's event for Financial Inclusion, Mumbai, 9 June 2025.

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Distinguished guests, participants, ladies and gentlemen, Good evening.

At the outset, let me thank the organisers for inviting me to share some of my thoughts on the theme of financial inclusion. Before that, let me take a moment to acknowledge that today i.e., June 05, 2025, is the World Environment Day, an UN-recognized day that brings together people across the globe in a shared mission to safeguard and restore our planet. This year's theme of ending plastic pollution is a call to all of us to make a behavioural shift in our daily life choices. In the spirit of preserving the purity of our environment and safeguarding our well-being, let us commit toward making more sustainable choices.

Coming back to our theme for the day, let me begin by stating the obvious that financial inclusion is not just a policy objective but a collective obligation and responsibility for all stakeholders in the financial ecosystem. The importance of the theme can be underscored by the fact that at least seven out of the seventeen United Nations Sustainable Development Goals of 2030 view financial inclusion as a key enabler for achieving sustainable development worldwide by improving the quality of lives of poor and marginalized sections of the society. It is seen as a way to bridge the gap between the privileged and the under-privileged and a way to bring people out of poverty. An inclusive financial system has the potential to reduce income inequality and poverty, promote social cohesion and enable shared economic development. It also can dissuade the disadvantaged and low-income segments of society from seeking out informal options that renders them vulnerable to financial distress, debt, and poverty.

History of Financial Inclusion in India

Given the theme for today's discourse, it would be worthwhile to set the historical context regarding financial inclusion in India. While the financial inclusion initiatives in our country can in many ways be traced back to the 1950s, with significant developments ensuing in the subsequent decade, it was the National Credit Council meeting of July 1968 that paved the way for framing of Priority Sector Lending (PSL) guidelines, nationalisation of select private banks in July 1969 and launch of the Lead Bank Scheme in December 1969 that were the precursors of this journey. The branch expansion policy adopted by RBI during the 1970s, which required a specific number of branches to be opened in rural areas for every branch opened in urban areas, became the foundation for expanding the reach of banking services that we see today. Besides, the experiments with group-based lending towards the turn of the last century and proliferation of microfinance institutions have also helped link the unserved section of the population with the formal banking system.

Interestingly, the above initiatives were taken during a period when the term 'financial inclusion' was not prevalent in the country. The first reference to the term was made in RBI's Annual Policy Statement for the Year 2005-06 by Dr Y.V. Reddy[1], the then Governor of the Reserve Bank of India, who highlighted 'financial exclusion' that resulted due to certain banking practices. Banks were then urged to review their existing practices to align them with the objective of financial inclusion, leading to the genesis of 'no frills' account, which are now known as Basic Savings Bank Deposit Accounts.

Financial Inclusion in Indian Context

The first step in promoting financial inclusion is understanding its nuances, which are as dynamic and diverse as the Indian economy itself, and thereafter outline its ambit in the Indian context. Given its multi-faceted nature, various organisations and jurisdictions have defined financial inclusion in different ways. In India, the formal definition of financial inclusion[2] was given in January 2008 by the Committee on Financial Inclusion chaired by Dr C Rangarajan as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost". Reflecting the priorities of that time, the definition focused largely on the access to financial services. Currently we have a scenario, where more than 95% households have access to a bank account[3], which reflects remarkable progress on one out of three parameters of Financial Inclusion Index developed by the Reserve Bank to measure the extent of financial inclusion in the country.

While there has been a significant progress in expanding the banking reach, it is also important to ensure that inherent barriers to a gamut of financial products and services are eliminated and usage of these services expands to various segments of yet underserved and un-served population in the country. Efforts towards making financial services accessible become futile if they are not used by the intended population or are used without appropriate awareness of its risks and benefits. Thus, the other two parameters of RBI's financial inclusion index, viz., usage and quality of the financial services cannot be overlooked while defining or measuring financial inclusion. Over the last few years this index has shown reasonable improvement, but there is a scope for improvement in some aspects.

Current Scenario

To get a perspective on the current scenario, it would be worthwhile to dwell a bit on some of the recent developments in the journey of financial inclusion in the country. Several policy measures towards furthering financial inclusion have been undertaken from time to time, but it was the launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) that became the watershed moment in this journey. The Jan Dhan Yojana – Aadhar – Mobile i.e., JAM trinity provided a quantum leap in our endeavour to ensure access to banking services for all adults, making it the world's largest financial inclusion program. As of May 21, 2025[4], 55.44 crore Jan Dhan accounts, 56% of which belong to women, have over 2.5 lakh crore worth of deposits, which speaks volumes about the impact of the scheme. The provision of universal access to bank accounts has not only increased the potential reach of other financial services but has also enabled frictionless delivery of welfare programs to the targeted segment through adoption of Direct Benefit Transfer (DBT).

Digital Payments

Access to a bank account is a prerequisite for availing other financial services, and a robust payments and settlements system is an indispensable enabler for proliferation of formal financial services. Over the past decade, the fundamentals of banking have changed with the advent of digital modes of banking like net banking and mobile banking as well as digital payments systems like Unified Payment Interface (UPI). In FY 2024-25, digital payments surged 35% Y-o-Y by volume to 60.81 crore transactions per day, with UPI accounting for 83.73% of such transactions[5]. The extraordinary uptake of UPI stands as a testament to the power of collaborative and use-case-driven innovation in driving financial inclusion. A particularly compelling example of this transformation can be seen in the informal sector-where today a street vendor or pop-up store owner nonchalantly places a QR code at the fore and receives payment for services without any hassle for cash and quietly integrating himself into the formal financial system with dignity and ease.

For further expanding and deepening the digital payments ecosystem in the country, a Payments Infrastructure and Development Fund has been constituted to encourage deployment of payment acceptance infrastructure. Further, all State and Union Territory Level Bankers' Committees have been advised to identify districts and assign them to designated banks, with an endeavour to make these districts 100 per cent digitally enabled. The objective is to provide every eligible individual in the identified district at least one mode of digital payments viz., cards, net banking, UPI, AEPS[6], etc. It is understood that as on March 31, 2025, 514 districts across 15 states and 6 UTs are 100 percent digitally enabled. This marks a significant milestone in our journey towards a digitally inclusive economy.

RBI's financial inclusion index.

RBI's financial inclusion index, which captures the extent of financial inclusion across the country, with four iterations published till date, has increased from 60.1 in March 2023 to 64.2 in March 2024, showing a Y-o-Y increase of 6.82 per cent. While the progress is appreciable, credit gaps still exist in the system which may be attributed amongst others to a lack of documentation available with the individuals/ entities in the informal system and of awareness regarding the various government schemes. There is as such a need to make concerted efforts to fill them.

Recent regulatory initiatives

The RBI has been sensitive to need to bring about improvement in the financial inclusion in the country. Some of the measures taken recently in this regard include raising the limit for collateral-free agriculture loans to 2 lakh per borrower, enhancing various loan limits under PSL, expansion of the list of eligible borrowers under the category of 'Weaker Sections' alongwith removal of existing cap on loans by UCBs to women beneficiaries. The scope of co-lending is proposed to be broadened by expanding the list of permitted regulated entities (REs) that can enter a co-lending arrangement and extending the same beyond PSL loans. A comprehensive review of the Lead Bank Scheme is also underway with an objective to enhance the effectiveness and impact of the scheme.

With respect to digital payments, permissible transaction limit on UPI Lite has been revised in FY 2025 from 500 to 1000 and on UPI 123PAY from 5,000 to 10,000 to encourage their wider adoption. Further, with a view to promote digital payments among individuals without bank accounts, UPI Circle has been introduced which allows a secondary user to make UPI transactions up to a limit from the primary user's bank account in a secure manner. Besides, in an effort to enhance ease of access to digital infrastructure for persons with disabilities, payment system participants (PSPs) have been advised to review their payment systems and devices and carry out necessary modifications so that all such systems and devices can be easily accessed and used by persons with disabilities.

Financial Literacy

Meaningful financial inclusion also requires access and awareness in right proportions for ensuring responsible and equitable service delivery of financial services. Therefore, financial literacy and financial inclusion need to be considered as two sides of the same coin – promoting financial inclusion without adequate financial literacy would lead to underutilization of financial services and increased chances of errors and frauds. Conversely, educating the consumers without facilitating their access to the formal financial system would result into unmet demand for financial services. The efforts towards augmenting financing literacy have been institutionalised by setting up of the National Centre of Financial Education (NCFE) jointly by the financial sector regulators. RBI as a regulator has been at the forefront of financial literacy with the launch of annual Financial Literacy Week campaigns targeted at specified sections of the population. Financial awareness empowers borrowers to assess and understand financial products, thereby supporting informed decision-making. To facilitate informed decision making by the customers and enhance transparency by the lenders, the RBI has mandated that all REs provide a standardised disclosure of key terms and conditions in the form of Key Fact Statement (KFS) to all retail and MSME borrowers.

Challenges

Even as all the stakeholders in the financial system, including the regulator and the REs, play their part in advancing financial inclusion, certain issues that act as impediments to the efforts made in this regard have come to the fore and will need to be addressed. Let me briefly highlight a few such issues.

Grievance Redressal

Having an effective grievance redressal mechanism is non-negotiable for financial sector enterprises as non-resolution of consumer's concerns not only leads to erosion of customer base but also results in loss of trust in the broader financial system and deters new consumers from entering the system. It is concerning that the complaints received at the Offices of RBI Ombudsmen as well as Centralized Receipt and

Processing Centres (CRPCs) marked a sharp 33% year-on-year increase[7] in FY2023-24. This raises questions on the products, practices, and handling of grievances at the level of the RE. REs, therefore, need to analyse the gaps and strengthen their processes to reverse the trend of increasing grievances.

Mis-selling

While financial inclusion entails a bouquet of financial services, pushing the same indiscriminately to unaware consumers may be detrimental to their well-being and undermine its stated intent. There are reports of mis-selling of financial services such as insurance products. The concern is that such mis-selling without regard to suitability and appropriateness would beget distrust in schemes aimed at providing a safety net to the low-income households by creating artificial boundaries. We are examining whether it necessitates framing of guidelines to address mis-selling of financial products and services by REs.

Cyber Safety and Digital Literacy

As digitalization becomes more pervasive, the need for increasing digital literacy becomes even more pronounced. Empowering individuals to use digital devices and platforms with confidence and security is essential to ensuring inclusive participation in the digital economy. Often, apprehensions related to uncertainty, the possibility of errors, or financial loss create psychological barriers that hinder the adoption of technological solutions such as ATMs, mobile banking, and other digital services. The rising incidents of frauds through novel techniques makes it imperative that REs collaborate with other stakeholders like SROs, NGOs, etc. to generate awareness and promote safe digital practices among customers.

At the same time, it is critical for REs to implement effective measures to combat digital frauds. One such area warranting attention is the use of One-Time Passwords (OTPs) as a means of Additional Factor Authentication (AFA). While this method has served well in the past, the evolving threat landscape in the arena of cybersecurity now calls for the development and adoption of more secure and resilient alternatives. Further, REs must diligently adopt the designated 160 number series[8] for all service and transactional voice calls as prescribed by the Government. This initiative is critical to maintaining the integrity of communication channels and protecting customers from phishing and other forms of cyber-attacks.

RBI has been running extensive multimedia awareness campaigns using audio-visual messages under the name 'RBI Kehta Hai' and text messages as 'RBI Says'. Further, RBI has introduced the bank.in and fin.in domains exclusively for banks and non-bank entities to curb cyber security threats and malicious activities. Also, to aid the customers in verifying Digital Lending Apps' (DLAs) association with RE, the RBI has created a public repository of DLAs deployed by the REs which will soon be available on RBI's website.

Developments in Microfinance

Let me now focus on a few developments in Microfinance sector. Microfinance has placed itself as a promising avenue for providing formal financial services to the excluded sections of population. While microfinance has played an important role in financial inclusion, there are some issues which need attention. The sector continues to suffer from vicious cycle of over-indebtedness, high interest rates and harsh recovery practices. While some moderation in interest rates charged on microfinance loans has been observed in recent quarters, pockets of high interest rates and elevated margins continue to persist. Even lenders having access to low-cost funds have been found to be charging margins significantly higher than the rest of the industry and which in several instances appear to be excessive. The lenders should look beyond the conventional "high-yielding business" tag for the sector and approach it with an empathic and developmental perspective, recognising the socio-economic role that microfinance plays in empowering vulnerable communities.

The frequency of disruptions in the microfinance sector has increased of late. Incidents of high borrower indebtedness, coupled with coercive recovery practices, sometimes lead to tragic consequences. It is in the collective interest of all stakeholders that such disruptions are pre-emptively addressed and avoided. In this regard, REs must also enhance their credit appraisal frameworks to prevent over-leveraging of borrowers. Additionally, they must eschew any coercive or unethical recovery practices, ensuring that financial services are delivered in a manner that is both responsible and sustainable. While the business model may be sound, the organisational structure and the incentive schemes framed to deliver the services may be flawed resulting in perverse outcomes for customers. This calls for an introspection around the models.

Way Forward

Even as we reflect on some of these challenges, we need to be clear about the path that we must take to ensure greater financial inclusion. As we look to the future, the way forward for financial inclusion lies in the strategic deployment of emerging technologies to build a more accessible, equitable, and efficient financial ecosystem. Innovations such as AI, blockchain, and digital public infrastructure are revolutionizing how financial services are delivered, especially to the underserved and remote communities. One such innovation in this space is the Account Aggregator (AA) framework. By empowering individuals to securely share their financial data with consent, the AA system enables more accurate credit assessments and potentially facilitates the delivery of customized financial products. Building on this foundation, the Unified Lending Interface (ULI) standardizes and streamlines the digital lending process by providing lenders with a host of alternate data including digitised state land records, milk pouring data and satellite data. It's RBI's belief that the JAM trinity will be followed by the new trinity of JAM-UPI-ULI in revolutionizing digital infrastructure and credit delivery and provide necessary fillip to financial inclusion efforts, pushing it to new highs.

The development and implementation of India Stack has revolutionised the banking landscape in India and has been instrumental in furthering financial inclusion by reducing infrastructural, geographical, and linguistic frictions and plugging leakages. REs have been encouraged to innovate in product design, offering solutions that reflect the unique needs of their customer base; for instance, offering flexibility in repayment schedules, variable savings contributions, and locally tailored financial products shaped by seasonal income cycles, occupational patterns, or behavioural tendencies. Such customisation can go a long way in further improving access, usage, and quality of financial services. REs can bring some of these innovations under the theme neutral 'On Tap' Regulatory Sandbox framework, which provides a structured environment for testing state-of-the-art solutions in the interest of consumers and financial stability. As connectivity can pose challenges in remote and rural areas, REs can explore the development of lightweight mobile applications and web interfaces optimised for low-bandwidth environments. These measures will go a long way in extending the reach of digital financial services to the last mile, thereby ensuring inclusive and accessible banking for all.

A lot has been achieved in the journey for achieving financial inclusion thus far, yet a lot more needs to be done. It cannot be merely achieved by standalone policy initiatives but by implementation of such initiatives both in letter and spirit by all stakeholders in the financial ecosystem. Also, those who remain outside the ambit of formal finance today represent untapped potential that can meaningfully contribute to economic growth in the future. The dividends of such inclusion will not only accrue to the institutions involved but will also strengthen the foundation of a more resilient, equitable, and prosperous society. Financial inclusion should not be viewed as an act of philanthropy, but rather as a strategic investment in the nation's economic and social development. With the right mix of well thought of and carefully crafted regulation, technological advancement, and institutional empathy, our collective efforts can dismantle longstanding barriers and usher in a new era of inclusive and sustainable financial growth – one that leaves no citizen behind and resonates far beyond set boundaries.

Thank you.

Address delivered by Shri M Rajeshwar Rao, Deputy Governor, Reserve Bank of India on June 05, 2025, at HSBC's event for Financial Inclusion in Mumbai. Inputs provided by Jyoti Prakash Sharma, Jignasa Morthania and Yash Goel are gratefully acknowledged.

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[1] Annual Policy Statement for the Year 2005-06 by Dr. Y. Venugopal Reddy, Governor, Reserve Bank of India

[2] Report of the Committee on Financial Inclusion

[3] National Family Health Survey (NFHS - 5), 2019–21

[4] https://pmjdy.gov.in/account

[5] As per Reserve Bank of India's Annual Report for 2024-25

[6] Aadhaar Enabled Payment System

[7] Table 1.1 of the Annual Report of Ombudsman Scheme, 2023-24

[8] To address the issue of unsolicited and spam calls from telemarketers, Department of Telecommunications (DoT) has allocated the 160-numbering series for solely making service and transactional calls to be used by banks, financial institutions, and other service providers, to keep away from the use of the 140-numbering series that was allocated to telemarketers.