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**Financial Inclusion and Digital Banking: Assessing Progress and Challenges in Bridging the Rural-Urban Divide in India Towards 2047**

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**Abstract:**

*Financial inclusion is one of the crucial pillars of economic growth. It allows essential financial services to touch the lives of everyone. Digital banking was also the biggest push in fulfilling this objective of India's goal: being a developed economy by the year 2047. This study looks at financial inclusion through digital banking in terms of the progress, challenges, and future opportunities it brings using secondhand information obtained from government reports, Reserve Bank of India (RBI) publications, financial figures from the World Bank, and academic research. The paper researched various components covering aspects rapidly expanding digital transactions brought about by initiatives such as the (PMJDY) Pradhan Mantri Jan Dhan Yojana, (UPI) Unified Payments Interface, as well as various fintech innovations. But devoid of good rural internet connectivity, digital literacy, cyberthreats, and inadequate banking infrastructure still experience much difficulty in their process. The literature review would probe twenty scholarly studies that trend and gap analyses of the various dimensions of digital financial services. Among the public-private partnerships and technological advances, the suggested policy recommendations point towards improving digital infrastructure, expanding financial literacy programs, and improving cybersecurity frameworks to promote trust. Financial development along inclusive lines would be powered by public-private partnerships and technology. The study strengthens the argument that India has come thus far, yet continuous efforts on policy measures and innovations will be needed to gain ground toward universal financial access by 2047.*

**Keywords:** *Financial Inclusion, Digital Banking, Rural-Urban Divide, India, Fintech, Economic Growth*

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**Introduction:**

Financial inclusion means that individuals and businesses have access to financially useful and affordable services. It plays an important role in economic development, the lowering of poverty, and the promotion of social inclusion. In India, financial inclusion has become prominent with the advent of digital banking, mobile payment systems, and government-led initiatives directed toward increasing financial access for the unbanked. With technology integrated into banking services, financial empowerment reaches new vistas, especially in rural areas where normal banking applications are lacking.

Several policies have been introduced by the government of India and the Reserve Bank of India to promote financial inclusion: for instance, the Pradhan Mantri Jan Dhan Yojana (PMJDY) allowed millions of previously unbanked citizens to access formal banking. In addition, UPI has disrupted the modus operandi of digital transactions with the primary objective of making cashless payments efficient and accessible. Aadhaar-enabled banking services and a

profusion of mobile banking apps have created a new level of financial outreach and convenience.

These advancements bring along issues. The rural population bore some walls like insufficient digital infrastructure, low financial literacy, cybersecurity risks, and most of all, lack of trust against digital financial systems. The urban and rural divide remains in India, and this money could not go in its full potential toward financial inclusion. There are also other factors like data security issues and frauds that keep some users from using the full benefit of banking.

The research seeks to evaluate the current status of financial inclusion through digital banking, analyze major challenges to such inclusion, and explore policy measures that would enable such inclusion in financial growth by the year 2047. This paper aims to rely on secondary data sourced from government, financial institutions, and academic research to contribute to understanding the status and gaps in digital financial inclusion. The ultimate output will assist in understanding how India stands to benefit from technology and policy interventions in creating a more inclusive and financially empowered society.

### **Objectives of the Study:**

1. To assess the status of financial inclusion and digital banking in rural and urban India
2. To identify challenges against achieving rural-urban parity
3. To provide recommendations for policies leading to financial inclusion.

### **Review of Literature:**

Financial inclusion has been broadly studied as a driver of economic growth and stability. Financial inclusion has often focused on its role as a vehicle for economic growth and stability.

According to the findings of Beck and Demirgüç-Kunt (2008) access to financial services leads to economic development and helps in poverty alleviation. Chattopadhyay (2011) had also studied financial inclusion in India in-depth, especially against West Bengal, and noted the problems in the rural penetration. Also, Demirgüç-Kunt, Klapper, and Singer (2017) investigated the relationship between financial inclusion and inclusive growth and provided examples from many economies worldwide. Ghosh (2013) found a correlation between financial inclusion and financial fragility and raised doubts over the issue of over-indebtedness in the population in the process of being financially included. Honohan (2008) illustrated cross-country variation in household access to financial services, making a case for the role of financial regulation in promoting inclusion.

Kempson et al. (2000) also presents the issue of financial exclusion in the UK and US, thus demonstrating systematic barriers that remain despite policy changes. Kumar (2013) identified factors of financial inclusion in India and noted the relevant role digital banking plays as a bridge. Mehrotra and Yetman (2015) in their research, indicated the central bank's dilemma on handling of the financial inclusion and the ensuing regulatory challenges. To Morgan and Pontines (2018), financial stability is assessed alongside financial inclusion with the proposition that the ongoing rapid proliferation of banking services should be buttressed with the counterpart risk-counteracting strategies.

Badru (2016) in his research found that the more people have access to banking, the higher will be GDP growth. Park and Mercado (2018) treated financial inclusion as an instrument of reduction in poverty and income inequalities in countries in Asia. According to Rangarajan (2008), one of the most important reports in terms of inclusion for India is financial inclusion. It contains policy measures that are still valid today. An index to measure financial inclusion introduced by Sarma (2012) has enabled the progress of India to be measured over time. Sharma and Kukreja (2013), on the other hand, argued that without financial inclusion, there is going to

be no development of emerging economies, and they advocated for digital solutions in such an environment.

Sinha and Azad (2018) study on financial inclusion in Indian states empirically, indicated that there are regional disparities in the financial inclusion scenario. Subbarao (2013) stated various challenges and opportunities in financial inclusion from a Reserve Bank of India perspective. The study done by Swamy (2014) explored the gender aspect of the financial inclusion phenomenon, which is women's access to finance as a catalyst for socio-economic development. Tharavanij (2007) attempted to survey whether capital markets play a role in stronger financial inclusion, stating that they could help complement traditional banking. On the conclusion, Zins and Weill (2016) presented conditions explaining financial inclusion within Africa, bringing similarities to the challenges and opportunities offered to India.

### **Research Methodology:**

This research paper has employed a qualitative approach based on secondary data to comprehend the evolution, challenges, and opportunities of Financial Inclusion and Digital Banking. The following steps were undertaken in the research:

### **Research Design:**

The present research uses the qualitative method for this study, involving secondary data sources like RBI reports, government publications, World Bank policy papers on financial inclusion, NPCI data, and peer-reviewed research papers.

### **Data Sources:**

The paper is based on Secondary data sources such as RBI reports, government publications, World Bank financial inclusion data, National Payments Corporation of India (NPCI) statistics, and peer-reviewed research articles.

### **Data Analysis and Findings:**

This section presents deep exploration of financial inclusion through digital banking in India, examining key trends, challenges, and progress. The study uses various sources of secondary data from government reports, RBI publications, World Bank statistics, and fintech research to evaluate digital banking adoption, accessibility, and its impact across rural and urban populations. By evaluating digital transaction growth, financial literacy levels, banking penetration, and cybersecurity risks, the findings identifies essential areas requiring policy intervention. The analysis also explores the role of fintech innovations, regulatory frameworks, and socio-economic factors affecting financial inclusion. Through this evaluation, the research provides insights into the effectiveness of existing initiatives and identifies gaps that must be addressed to accomplish universal financial access by 2047.

### **Assessing Financial Inclusion Progress In India:**

Financial inclusiveness in India has made great progress because of schemes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY).

- **PMJDY Accounts:** According to the report published by *Press Information Bureau, 2023*, there are over 50.09 crore Jan Dhan accounts opened as of August 9, 2023. Of these, 33.45 crore accounts have been opened in rural and semi-urban areas, amounting to 66.7% of all accounts opened.

- **Gender Distribution:** The report also reveals that about 55.6% (27.82 crore) of Jan Dhan account holders are women, which shows a positive trend in gender inclusion in the area of financial services.
- **Banking Access:** The same report states that as of July 2023, 99.7% of the villages mapped out of the 6.01 lakh mapped villages (5,99,468 villages) have been provided access through banking outlets within a distance of 5 km: bank branches or banking correspondents or Indian Post Payment Banks.
- **Financial Inclusion Index:** According to the article, *Financial inclusion index of India from financial year 2017 to 2024* published by STATISTA, the Financial Inclusion Index of India has progressed remarkably with 43.4 in 2017 rising to 64.2 in Financial Year 2024. The index tracks access and usage of formal financial services, pointing to strong progress in financial inclusion efforts.
- **UPI Adoption:** The *Press release, 19 Dec 2024* of EY reported that about 38% of respondents in rural/semi-urban areas are opting for UPI for their transactions, making it a popular mode of payment. The trend indicates the rising acceptance of digital payment mediums by increasing numbers of people beyond urban centers.

### Digital Banking Growth:

The digital payment ecosystem of India has seen surpassing growth, with the prowess of UPI behind it.

- **UPI Transactions:** The reports of *Press Information Bureau, 2024*, stated that UPI transactions soared from 92 crore in FY 2017-18 to 13,116 crore in FY 2023-24 with a CAGR of 129%.
- **Digital Payment Volume:** the same report also stated that Digital payment transactions jumped from 2,071 crore in FY 2017-18 to 18,737 crore in FY 2023-24, declaring a CAGR of 44%.
- **Mobile Banking Growth:** As per the report of *aisect.org, Digital Banking in Rural India 2024*, the Reserve Bank of India report in 2023 estimated that the number of internet subscribers in rural areas will increase enormously, creating high potential in adopting digital banking services. Mobile banking has changed the face of digital banking in rural India, obviating the need for long trips to the bank branches.
- **Financial Literacy Level:** As per the report of *Press Information Bureau, NABARD Survey on Rural Financial Inclusion*, the level of financial literacy has improved with 58% of respondents from rural areas and 66% from semi-urban areas answering all the questions correctly in a recent survey. This improvement is vital in ensuring that financial services are used properly.
- **Unified Lending Interface (ULI):** According to the article, *India to launch platform for rural, small business lending, by Reuters*, India's Unified Lending Interface is being launched on an experimental basis to facilitate the credit flow to small and rural borrowers, especially in the agriculture and small-business sectors. The platform aims at fast-tracking the credit appraisal process and enabling information based on the borrower's consent to flow digitally.
- **Merging Regional Rural Banks (RRBs):** Another article, *India proposes merging regional rural banks to help them shore up capital, document shows, by Reuters*, reported that the Indian government has proposed merging regional rural banks with the intent of reducing their count from 43 to 28. This strategic move intends to cut costs and streamline the capital base of these lenders so that they may serve rural folks better.

- **National Strategy for Financial Inclusion (NSFI) 2019-2024:** A NSFI is a framework set out by the Reserve Bank of India for enhancing financial inclusion by ensuring reach of financial services to the underserved and unserved areas. It has provided guidance for the policies and initiatives aimed at bridging the gap in financial inclusion.
- **Latest Trend:** According to the report of *Silicon India, 2025*, on January 2025, UPI registered its highest ever monthly transactions at 16.99 billion, out of which Person-to-Merchant (P2M) transactions accounted for 62.35% of UPI volume. Notably, 86% of P2M transactions were valued at ₹500 or less, demonstrating that UPI is widely accepted for making everyday low-value payments.

### Challenges in Bridging the Rural-Urban Divide:

Despite the progress, several hurdles still linger in ensuring equal financial inclusion focuses on different classes of people living in rural versus urban areas.

- **Preference for Physical Branches:** The article of *Payspcae Magazine, UPI Sees Growing Adoption in Rural India*, reported that even with the advent of digital payments, 86% of account holders from rural and semi-urban areas still prefer a physical branch visit. This emphasizes the requirement for an omnichannel strategy of Banking in that area.
- **Internet and Smartphone Penetration:** Even though some recent data may be scarce, the fact remains that rural areas have always had lower levels of internet and smartphone penetration relative to urban centers; it is this impediment to the ease of adopting digital banking.
- **Financial Literacy:** Many people in rural areas simply do not know about digital financial services, restricting the usage of their advantages.
- **Infrastructural Gaps:** According to the report of *Press Information Bureau, 2023*, even though 99.7% of the villages are covered with banking adapters within a 5-km radius, the quality and reach of the services can be varied, thus affecting the entire user experience.
- **Inactive Accounts:** In August 2023, the report published by *Factly, 2023*, states that approximately out of 51.11 crore PMJDY accounts, some 10.34 crore were inactive, thus indicating further complications for usage of account and engagement of users.

### Policy Recommendations to Bridge the Rural-Urban Divide in Financial Inclusion through Digital Banking

**1. Increasing Digital Infrastructures:** The government thereby improves the rural digital connectivity through BharatNet extension and gives incentives to private telecom investments. Promote subsidized smartphones and data plans that intend to attract users through digital banking. The last financial mile access to digital banking transforms mobile banking vans and micro-ATMs.

**2. Advancing Financial Literacy and Awareness:** Financial literacy is part of the education of citizens concerning digital banking and financial literacy programs at school curriculums and community workshops. Mass media, including TV and radio besides local influencers, is needed to help bring awareness by spreading it in regional languages. Digital Banking Help Centers are to be set up in villages to provide hands-on training for rural users.

**3. Enhance Banking Access in Rural Areas:** There is extension of mini bank branches and ATMs in underserved areas, which becomes important for financial access. Banking hubs will be created by turning post offices into banking hubs and strengthening the India Post Payments Bank (IPPB) for better service delivery. Increasing the number of banking correspondents (BCs), especially women, will enhance financial outreach.

**4. Improving Access to Finance for Farmers in Rural Areas:** KYC simplifications, in addition to the roll-out of a Unified Lending Interface (ULI), will open avenues for easier credit access in rural areas. Expand microfinance institutions and Self-Help Group (SHG) lending to provide more empowering tools for rural-based micro-entrepreneurs. Interest subvention schemes for farmers and rural entrepreneurs will enhance digital penetration of credit.

**5. Strengthening Cyber Security and Consumer Protection:** AI boosted fraud detection systems with real-time alerts on fraud can make a better reduction in cybercrime in digital banking. Having a Rural Digital Banking Ombudsman can clear and balance the grievance redressal process. High-value transactions should be made mandatory for biometric authentication.

**6. Promotion of PPP for Digital Financial Inclusion:** Banks and fintech should reimburse for cashbacks to minor merchants and zero MDR charges on UPI transactions to induce adoption of digital payments, thereby enabling collaboration between banks and fintech for digital payment adoption in rural areas. Design of mobile wallets for daily wage workers could complement this objective.

**7. Strengthening the RRB and Microfinance Institutions:** The dilapidated RRBs should either merge into stronger RRBs or set up capital infusion schemes to strengthen services. To ensure stability for microfinance institutions (MFIs), refinancing schemes should be established for them. Establish Rural Digital Banking Units (DBUs) as a continuous avenue of access to digital banking.

**8. Monitoring and Evaluation Framework:** It is mandatory to launch the Financial Inclusion Dashboard for tracking the penetration of banks, disbursement of credit, and growth of digital transactions. At the same time, annual surveys for financial inclusion would help to identify gaps and rectify policy consequential to the findings. Besides, a Rural Financial Inclusion Task Force should be created to monitor its progress and make the required recommendations.

By implementing these policies, India will achieve complete financial inclusion in 2047, so that finances are easily accessible to all in both rural and urban scenarios.

### Conclusion:

It is indeed very essential to combine all strategic reforms with infrastructural growth, financial literacy as well as cybersecurity advancements in order to make total financial inclusion by 2047 possible. Innovation through digital banking and some targeted interventions would guarantee equal accessibility to financial services whether rural or urban, thus empowering economies.

The biggest reason behind bringing many revolutionaries into financial inclusion is the digital connection and awareness of finance, stronger vigilance against fraud, and so on, though India has made considerable strides in its concepts over years. More rural branches, increased fintech collaboration, and better lending accessibility comprise a part of the needed takes to help drive an inclusive economy. All these innovations in policy and on the technology front will continue to be the mainstay of the vision toward achieving Viksit Bharat in a financially sound and empowered society for all.

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