



## **An Empirical Study on Financial Inclusion and Digital Payments in Rural India**

**Dr. Nilesh Babasaheb Gawade**

Assistant Professor,

Department of Commerce, Sant Dnyaneshwar Mahavidyalaya,

Soegaon, Dist- Chhatrapati Sambhajinagar 431120

Mobile: 9975860093 [nileshgawade7@gmail.com](mailto:nileshgawade7@gmail.com)

### **Abstract:**

*This paper explores the progress, challenges, and impact of financial inclusion in rural India with a specific focus on the adoption and role of digital payment systems. It underlines how government programs, technological advancements, and infrastructural developments have enabled increased access to financial services among rural populations. The paper examines key drivers such as Unified Payments Interface (UPI), Aadhaar Enabled Payment Systems (AEPS), and mobile banking, alongside persistent barriers like digital literacy, trust, and connectivity. Policy recommendations for furthering inclusive digital finance in rural India conclude the study.*

**Keywords:** Financial inclusion, Digital payment, Finance, Banking.

### **Introduction:**

Financial inclusion refers to providing vulnerable and underserved populations equitable access to affordable financial products and services such as savings, credit, insurance, and payments to improve their economic participation and well-being. In India, rural areas historically have had limited access to formal financial institutions. The government of India has prioritized financial inclusion as a key driver of poverty alleviation and rural development through schemes such as Pradhan Mantri Jan Dhan Yojana (PMJDY), Direct Benefit Transfer (DBT), and the promotion of RuPay cards.

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

Following are the objectives of the study:

- 1) To study the meaning of financial inclusion.
- 2) To analyze benefits of financial inclusion
- 3) To study the digital payment system and cashless economy.

### **Research Methodology:**

The present research paper is descriptive and analytical in nature and makes use of secondary sources of data. The internet sources also have been referred.

### **Financial Inclusion in Rural India- Current Landscape:**

1. Recent surveys indicate significant progress in bank account ownership with rural access to banking deposits increasing by over 40 percentage points between 2013 and 2019, particularly in eastern and northeastern states.



2. Numerous government programs, including DAY-NRLM and digital literacy campaigns, have helped expand financial coverage and literacy, encouraging greater adoption of formal financial services.
3. Public sector banks remain dominant in advancing financial inclusion, especially through Business Correspondent (BC) models and banking agents supplementing branch infrastructure in rural sectors.

**Role of Digital Payment Systems:**

1. Digital payment systems such as UPI, AEPS, mobile wallets, and QR code payments have transformed rural financial transactions by enabling cashless, faster, and secure payment options. UPI alone accounts for 38% of rural digital transactions, driven by smartphone penetration and awareness campaigns.
2. Adoption rates show 65% of surveyed rural residents use at least one form of digital payment, primarily targeting utility payments, mobile recharges, and government benefit transfers.
3. Digital payments enhance financial accessibility by linking more rural people to formal banking, reducing cash dependency, and supporting small businesses and farmers by enabling digital credit and insurance access.

**Meaning of Financial Inclusion:**

Financial inclusion denotes delivery of financial services at an affordable cost to the vast section of the disadvantaged and low income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes.

Rangarajan committee (2008) on financial inclusion defines it as “Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker section and low income groups at affordable cost.”

**Objectives of Financial Inclusion:**

- 1) Financial Inclusion can help the society and the economy. Financial Inclusion has the ability to generate positive externalities: it leads to increase in savings, investment and thereby, spurs the processes of economic growth.
- 2) It also provides a platform for inculcating the habit of saving money, especially amongst the lower income category that has been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them a vulnerable lot.
- 3) Presence of banking services and products aims to provide a critical tool to inculcate the savings habit. It also creates avenues of formal credit to the unbanked population who are otherwise dependent on informal channels of credit like family, friends and moneylenders.
- 4) Availability of timely, adequate and transparent credit from formal banking channels will allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. It will open the doors of formal remittance facilities to



the low income and unbanked populace who, presently, are forced to use all kinds of informal and costly ways of sending money from one place to another.

- 5) Financial Inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries' bank accounts rather than through subsidizing products and making cash payments.
- 6) Thus, on the whole, Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

### **Challenges to Financial Inclusion in India:**

1. Digital infrastructure gaps remain, with limited internet penetration and unstable electricity in many rural areas restricting seamless digital transactions.
2. Low digital and financial literacy among rural users, alongside cultural skepticism, hampers wider adoption and trust in digital systems.
3. Security concerns such as cyber fraud deter some rural consumers.
4. Despite digital growth, cash remains the dominant payment medium, with about 19% of rural users still preferring cash transactions.

### **Benefits of Financial Inclusion:**

Financial inclusion offers numerous benefits that contribute significantly to individual empowerment, poverty reduction, and overall economic growth. Here are the key benefits of financial inclusion:

1. **Reduction of Poverty and Inequality:** Financial inclusion provides access to banking services, savings, credit, and insurance for marginalized and low-income populations. This access enables people to manage their finances better, invest in income-generating activities, and protect themselves from economic shocks, thus helping reduce poverty and bridge economic disparities.
2. **Economic Growth and Stability:** By bringing more people and businesses into the formal financial system, financial inclusion boosts savings, investments, entrepreneurship, and consumer spending. These activities contribute to economic development, job creation, and increased productivity at both local and national levels.
3. **Empowerment of Marginalized Groups:** Financial inclusion particularly benefits women, low-income families, and rural populations by improving their access to financial services. Women's economic empowerment through financial inclusion leads to better household welfare, education, and health outcomes.
4. **Promotion of Entrepreneurship and Small Businesses:** Access to affordable credit and financial tools helps small businesses grow, innovate, and create employment opportunities. Financial inclusion supports MSMEs (Micro, Small, and Medium Enterprises), which form the backbone of many economies.
5. **Improved Financial Stability and Security:** With access to savings, insurance, and pension products, individuals and families can build a financial safety net,



helping them absorb shocks like health emergencies or job loss, thereby increasing their financial resilience.

6. **Advances in Financial Literacy and Consumer Protection:** Financial inclusion initiatives often include education programs that enhance financial literacy. This empowers people to make informed decisions, budget effectively, and safely navigate financial products, fostering trust in the financial system.
7. **Encouragement of Digital and Social Inclusion:** As digital payments and fintech solutions grow within financial inclusion frameworks, they encourage broader digital literacy and inclusion, linking people to the digital economy.

### **Digital Payment in Rural India:**

Digital payment adoption in rural India has seen remarkable growth due to technological advancements, government initiatives, and increased smartphone usage, but still faces significant challenges.

1. Rural India witnessed a high compound annual growth rate (CAGR) of 52% in digital payment transaction volumes from 2014 to 2024, driven mainly by UPI, RuPay, and Aadhaar Enabled Payment Systems (AEPS).
2. Over one-third of India's digital payment users now come from rural areas, with UPI leading as the preferred payment mode for roughly 38% of rural and semi-urban users, especially among younger adults aged 18 to 35.
3. Merchant adoption of digital payments in rural areas is high, often exceeding consumer adoption, reflecting a maturing digital ecosystem.

### **Impact and Opportunities:**

1. Digital payments reduce cash dependency, enhance economic efficiency, and enable rural users to access formal banking services and government subsidies more easily.
2. The integration of digital payment methods is empowering small rural businesses by improving transaction convenience.
3. Continued efforts in financial literacy, gender-inclusive education, and infrastructure development are essential to sustain and deepen adoption.

### **Problems of Digital Payments in Rural India:**

These are the problems that may occur in rural areas if digital payments system is applied in India.

1. **Limited Digital Infrastructure:** Many rural areas still suffer from erratic internet connectivity, low bandwidth, and frequent power outages. These infrastructural limitations lead to transaction failures and discourage consistent use of digital payment platforms.
2. **Low Digital and Financial Literacy:** Lack of awareness and understanding of digital payment systems among rural populations results in hesitation and mistrust. Many users find digital payment apps complex or fear making errors that could lead to financial loss.
3. **Device Access and Affordability:** The penetration of smartphones, which are often necessary for app-based payments like UPI, remains uneven. Many rural



users still rely on basic phones, making digital payment adoption more challenging.

4. **Security Concerns and Fraud Risks:** Incidents of cyber fraud, phishing, and unauthorized transactions create fear among rural users. The perceived lack of robust grievance redressal mechanisms contributes to skepticism towards digital payments.
5. **Preference for Cash Transactions:** Despite digital push, cash remains the dominant transaction mode due to its tangibility, ease of use, and lack of digital alternatives for many services. Many rural consumers and vendors still prefer cash owing to habit and trust issues.
6. **Complex KYC and Documentation Procedures:** KYC norms and documentation requirements pose hurdles for many rural residents, especially for those with limited formal identification or literacy, restricting access to payment wallets and bank accounts.
7. **Language and Interface Barriers:** Many digital payment apps are not fully localized or user-friendly for non-English speakers, creating usability issues for rural customers who primarily speak regional languages.
8. **Merchant Readiness and Acceptance Issues:** Small rural businesses may lack knowledge, equipment, or motivation to accept digital payments consistently, hindering seamless digital payment ecosystems.

### Conclusion:

Financial inclusion in rural India has made significant strides through increased access to banking and penetration of digital payment systems. Despite infrastructural and literacy challenges, digital payment platforms like UPI and AEPS have emerged as vital tools in democratizing financial services. Continued policy focus on literacy, infrastructure, and trust will be essential to realize the full potential of an inclusive digital financial ecosystem, enabling sustainable economic empowerment in rural India.

### REFERENCES:

- 1) G. Pavan Krishna (2015), Financial Inclusion in India- from Poverty to Prosperity, Journal for studies in Management and Planning, PP-458 to 462.
- 2) Assocham: Summit on Financial Inclusion & Growth 10th May 2010.
- 3) Financial Inclusion – RBI Initiatives A Presentation by Dr. K.C. Chakrabarty Deputy Governor, RBI At ‘National Seminar on Launching a National Initiative’ for Financial Inclusion’ organised by DFS, GOI at New Delhi on September 18, 2009.
- 4) Rakesh Mohan,(2009), Financial Inclusion in India: Is the Glass Half Empty or Three Quarters Full? Working Paper No. 409, Stanford Center for International Development.
- 5) Dr. Vivek Singla, Financial Inclusion- Financial Services for Everyone, International journal of Reviews, Surveys and Research.
- 6) Anil Kumar Thakur and Parveen Sharma (2009), Micro-Credit and Rural Development.



- 7) Deputy Governor, Reserve Bank of India at the HMT-DFID Financial Inclusion Conference.
- 8) Ramesh. S and Preeti Sahai, (2007), Universal Financial inclusion in India: The Way forward".
- 9) Dr. Ravi C. S, (2017) Digital Payment system and rural India: a overview of transaction to cashless economy, International journal of commerce and management, Volume03, Issue05, PP-169 to 173.
- 10) <https://ijnrd.org/papers/IJNRD2507057.pdf>
- 11) [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=5259060](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5259060)
- 12) <https://www.finextra.com/blogposting/26768/how-digital-payments-are-driving-financial-inclusion-in-india>
- 13) <https://www.eelet.org.uk/index.php/journal/article/download/3175/2842/3564>
- 14) <https://www.granthaalayahpublication.org/Arts-Journal/ShodhKosh/article/download/6274/5724/32595>
- 15) <https://dira.shodhsagar.com/index.php/j/article/view/167>
- 16) <https://www.nabard.org/content1.aspx?id=517&catid=8&mid=8>
- 17) <http://www.journalijdr.com/sites/default/files/issue-pdf/27976.pdf>
- 18) <https://bfsi.eletsonline.com/digital-bill-payments-in-rural-india-a-market-waiting-to-boom/>
- 19) [https://www.ijprems.com/uploadedfiles/paper/issue\\_5\\_may\\_2025/41513/final/fi\\_n\\_ijprems1748660255.pdf](https://www.ijprems.com/uploadedfiles/paper/issue_5_may_2025/41513/final/fi_n_ijprems1748660255.pdf)
- 20) <https://www.nic.gov.in/digital-payments-driving-the-growth-of-digital-economy/>
- 21) [https://www.txcindia.gov.in/html/Training\\_Module\\_on\\_Enabling\\_Digital\\_Payments\\_in\\_Rural\\_India\\_Latest.pdf](https://www.txcindia.gov.in/html/Training_Module_on_Enabling_Digital_Payments_in_Rural_India_Latest.pdf)