The Indian Journal for Research in Law and Management

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Editor-in-Chief – Dr. Muktai Deb Chavan; Publisher – Alden Vas; ISSN: 2583-9896

FINANCIAL INCLUSION POLICIES IN INDIA: THE LEGAL AND ECONOMIC PERSPECTIVE

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Last semester, for my Digital Empowerment course, we had an assignment to interview someone from the working class about their experience with UPI and digital transactions. I ended up interviewing the house help who works in my PG, along with a couple of other women she knew. What stood out to me was that they all knew how to use UPI. That part surprised me a little, honestly, because I went in expecting to explain the basics. I even showed one of them how to do a transaction, and she just looked at me and said, "I know all this." What they actually preferred, though, was letting their husbands handle the payments, especially for anything above a small amount. Not because they couldn't do it themselves, but because they said they were a little scared of making a mistake, of the money going somewhere it shouldn't. One of them put it really well. She said she no longer needs to carry cash around; she can just call her husband and tell him to pay, or pay herself if it's a smaller amount. So the awareness was there. Full awareness, in fact. What wasn't fully there was the confidence to act on it alone, at least not for the bigger transactions. At the time, I remember treating it as just another assignment to submit and forget. But going back to those notes while researching this piece, I realised that conversation was basically a live, unfiltered example of everything the textbooks call "financial inclusion," minus the jargon.

That contrast, between what gets written in policy documents and what actually happens when a real person is handed a bank account or a payment app, is what this article is trying to get into.

Financial inclusion sounds like one of those terms that gets thrown around in economics lectures without anyone really pausing to unpack it. So before jumping into the legal and policy side, I think it's worth explaining what we actually mean by it, in plain words.

WHAT DO WE EVEN MEAN BY FINANCIAL INCLUSION?

At its simplest, financial inclusion means making sure that every individual, regardless of income level or location, has access to useful and affordable financial products and services. This includes savings accounts, credit, insurance, and payment systems, delivered in a way that is sustainable and doesn't push people into debt traps. It is not just about opening a bank account. A bank account that sits unused, what economists call a "dormant account," doesn't really count as inclusion in any meaningful sense. Real inclusion is about usage, not just access.

This distinction matters a lot, and I'll come back to it later because it's actually one of the biggest criticisms of India's flagship inclusion scheme.

WHY SHOULD WE CARE ABOUT THIS, ECONOMICALLY SPEAKING?

From a purely economic standpoint, financial inclusion is tied closely to what is called "financial deepening," which basically means increasing the ratio of financial assets to GDP in an economy. When more people save through formal channels instead of keeping cash under the mattress (literally, in many rural households), that money becomes available for banks to lend out for investment. This is the classic savings-investment link that we studied in our very first macroeconomics class. More formal savings theoretically means more capital available for productive use, which in turn can support growth.

There is also the poverty and inequality angle. Access to credit allows small farmers and micro-entrepreneurs to smooth out their consumption and investment over time instead of relying on informal moneylenders who often charge exploitative interest rates. Insurance products protect low-income households from falling back into poverty after a shock like a medical emergency or crop failure. And government welfare payments, when routed directly into bank accounts, reduce leakage and corruption that used to happen when subsidies were distributed in cash or in kind.

So financial inclusion isn't just a "nice to have" social welfare goal. It has real macroeconomic weight behind it.

THE LEGAL ARCHITECTURE BEHIND IT

This is the part that I found genuinely interesting to research, because I hadn't realised how much legal scaffolding sits behind something as simple-looking as a bank account scheme.

The Reserve Bank of India, under powers given to it by the Banking Regulation Act, 1949[1] and the RBI Act, 1934[2], has issued several directives over the years mandating banks to open no-frills accounts, later called Basic Savings Bank Deposit Accounts (BSBDA). These accounts have minimal or zero balance requirements specifically so that low-income individuals aren't excluded simply because they can't maintain a minimum balance.

Then there is priority sector lending (PSL), which is one of those quietly powerful regulatory tools. Under RBI norms, banks are legally required to direct a certain percentage of their total lending, currently around 40 percent for domestic scheduled commercial banks, toward sectors like agriculture, micro and small enterprises, and weaker sections of society.[3] This isn't optional charity from banks; it's a binding regulatory requirement, and banks that fail to meet these targets have to invest the shortfall into funds like the Rural Infrastructure Development Fund. This one policy alone has shaped where a huge amount of institutional credit flows in this country.

The Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in 2014, is probably the most well-known face of financial inclusion policy in India, and I'll talk about it as my case study shortly. But what people often miss is that PMJDY itself doesn't exist as a standalone law. It functions through a mission-mode government directive backed by RBI guidelines to banks, rather than through a dedicated statute. This is actually a point of legal debate among policy scholars, because it means the scheme's continuity depends on administrative will rather than a fixed legal mandate, unlike, say, the Right to Education, which is backed by an actual Act.

[1] Banking Regulation Act, No. 10 of 1949, India Code (1949).
[2] Reserve Bank of India Act, No. 2 of 1934, India Code (1934).
[3] Reserve Bank of India, *Master Direction – Priority Sector Lending (PSL) – Targets and Classification*, RBI/DOR/2021-22/83 (Sept. 4, 2020, updated periodically).
[4] Ministry of Finance, Dep't of Fin. Servs., Gov't of India, *Pradhan Mantri Jan Dhan Yojana*, https://pmjdy.gov.in (last visited Aug. 2, 2026).

Alongside PMJDY, the Aadhaar Act, 2016[5] plays a huge supporting role, because Aadhaar-based e-KYC (know your customer) made it possible for banks to open accounts remotely and quickly without the older, more paperwork-heavy verification process. Though I should mention, the Supreme Court's 2018 judgment in the Aadhaar case restricted private companies from mandating Aadhaar for services, which did create some friction for fintech players trying to use it for onboarding.[6]

Payment innovations like UPI operate under the Payment and Settlement Systems Act, 2007[7], which gives the RBI authority to regulate and license payment system operators like NPCI (National Payments Corporation of India). Without this legal backing, something like UPI, which now handles billions of transactions a month, simply couldn't function at this scale with the trust it currently enjoys.

And then there's microfinance regulation, which took a serious legal turn after the 2010 Andhra Pradesh microfinance crisis, where aggressive lending practices by MFIs led to over-indebtedness and, tragically, a wave of farmer suicides linked to loan pressure. This pushed the RBI to bring in the Malegam Committee recommendations[8] and eventually formalise regulations for NBFC-MFIs (Non-Banking Financial Company - Microfinance Institutions), including caps on interest rates and lending limits per borrower. This is a good example of how a crisis on the ground often forces the law to catch up with market realities.

CASE STUDY: PMJDY AND THE JAM TRINITY

I want to focus specifically on PMJDY combined with what's called the JAM Trinity, that is, Jan Dhan accounts, Aadhaar, and Mobile numbers, because I think this is the clearest example of legal design meeting economic outcome in Indian policy in the last decade.

When PMJDY was launched in August 2014, the scale of ambition was honestly a little wild. The target was to open bank accounts for every unbanked household in the country within a specific time frame, and banks were directed to set up camps in villages, sometimes going door to door, to get people enrolled. Within just the first year, over 17 crore accounts were opened. As

[5] Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, No. 18 of 2016, India Code (2016).
[6] Justice K.S. Puttaswamy (Retd.) v. Union of India, (2019) 1 S.C.C. 1 (India).
[7] Payment and Settlement Systems Act, No. 51 of 2007, India Code (2007).
[8] Reserve Bank of India, *Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector* (Y.H. Malegam et al. eds., 2011).

of recent RBI data, the number of PMJDY accounts has crossed 55 crore, with total deposits exceeding 2.3 lakh crore rupees.[9]

Now here's where the real economic story happened. These accounts, linked with Aadhaar and mobile numbers, became the backbone of Direct Benefit Transfer (DBT). Instead of routing subsidies through multiple middlemen, ration shops, or cash handouts prone to leakage, the government could now transfer money directly into a beneficiary's bank account. This became especially visible during the COVID-19 pandemic, when the government used PMJDY accounts to transfer emergency cash relief of 500 rupees per month to over 20 crore women account holders under the Pradhan Mantri Garib Kalyan Yojana.[10] That is a genuinely remarkable use of financial infrastructure that simply did not exist a decade earlier.

But, and this is the part that I think doesn't get discussed enough, the scheme also revealed the gap between account opening and actual financial inclusion in the deeper sense. RBI's own Financial Inclusion Index and independent studies have repeatedly flagged a significant chunk of PMJDY accounts as either dormant or maintained with very minimal balances.[11] A World Bank Findex report from a few years ago pointed out that while India had made massive strides in account ownership, especially for women, a notable share of these accounts saw no activity for extended periods.[12] Meaning, the account existed on paper, and legally the person was "included," but economically, they weren't really participating in the formal financial system in a meaningful sense.

There's also the RuPay card issue tied to PMJDY, where cardholders often don't use the accident insurance or overdraft facility attached to their accounts, largely due to lack of awareness. This is where I think the limits of a purely legal-policy approach become visible. You can legally mandate that banks provide zero-balance accounts and overdraft facilities, but you cannot legally mandate financial literacy. That has to be built separately, through education and trust, which takes far longer than opening an account ever will.

WHERE THE LEGAL FRAMEWORK STILL FALLS SHORT

A few gaps stood out to me while researching this, and none of them have a clean legal fix.

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[9] Ministry of Finance, Dep't of Fin. Servs., Gov't of India, *Pradhan Mantri Jan Dhan Yojana (PMJDY) – National Mission for Financial Inclusion*, *Progress Report*, https://pmjdy.gov.in/account.

[10] Press Information Bureau, Gov't of India, *Ex-Gratia under Pradhan Mantri Garib Kalyan Yojana Transferred to Women Jan Dhan Account Holders* (2020), https://pib.gov.in.

[11] Reserve Bank of India, *Financial Inclusion Index for India*, Press Release (2023), https://rbi.org.in.

[12] Asli Demirgüç-Kunt et al., *The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19*, World Bank Grp. (2022).

The most obvious one is that PMJDY's dependence on executive policy rather than a dedicated legislative Act means its future depends heavily on political continuity rather than legal permanence. Compare this to something like the Consumer Protection Act, which exists regardless of which government is in power. That's not a small distinction if you think about it long term.

When financial inclusion relies so heavily on Aadhaar-linked digital infrastructure, questions around data protection are unavoidable. The Digital Personal Data Protection Act, 2023[13] is a step in the right direction, but how it actually plays out for financial data, especially for people who may not fully understand what they're consenting to when an app asks for permissions, is still an open question.

Then there's the more physical problem, which is that rural India still deals with what economists call the "last mile" issue. A legal right to open an account doesn't mean much if the nearest functioning branch or business correspondent is fifteen kilometres away, and this is still a real, everyday problem in several states, particularly in the northeast and parts of central India.

And there's a gendered angle that I think doesn't get talked about enough, and it's a bit more layered than it first appears. PMJDY has done genuinely impressive work getting women's names onto bank accounts. But what I noticed in my own interview was that the gap isn't always about awareness. The women I spoke to knew exactly how UPI worked; they weren't confused about the app or the process. What they preferred, especially for larger amounts, was letting their husbands handle it, mostly out of a fear of making a mistake with money that matters. That's a slightly different problem from the usual "financial illiteracy" explanation you find in most reports. It's less about not knowing and more about not yet trusting themselves with it, which honestly might be an even harder thing to fix, because it's not something a training camp or an awareness poster can solve.

SO WHAT DO I ACTUALLY TAKE AWAY FROM THIS?

What this whole research exercise taught me, honestly, is that financial inclusion in India is a good case study of how law and economics have to work together, but often move at different speeds. The legal framework- RBI mandates, priority sector lending norms, the Aadhaar Act, PSS Act, and microfinance regulations- has done the heavy lifting of building the infrastructure and creating obligations for banks to serve people who were previously ignored by the formal financial system. That part has genuinely worked, at least in terms of numbers and access.

[13] Digital Personal Data Protection Act, No. 22 of 2023, India Code (2023).

But the economic outcome- actual usage, confidence, trust, and control over one's own money- is a slower and messier process that law alone cannot guarantee. That's more or less what stayed with me from that interview last semester too. It wasn't that anyone lacked information. Opening the account, learning the app, none of that was the hard part. The harder part was something closer to confidence, and that isn't really something a policy can hand out.

I think that gap, between legal access and lived economic reality, is where the next phase of India's financial inclusion policy needs to focus. Not just opening more accounts, but making sure the ones that already exist are actually being used, and trusted the way they were meant to be.