

# Democratising access to finance in India





# Table of Contents

1. Introduction	6
2. Evolution of finance in India	10
3. Current policy environment and trade-offs	18
4. Regulatory/market gaps, challenges and emerging policy priorities	26
5. Key takeaways and recommendations	48
6. References	51

# Foreword

India stands at a defining moment in its financial evolution. Over the past several decades, the country has transitioned from a branch-based banking system to one of the world's most advanced digital financial ecosystems. What began with early financial reforms and microfinance initiatives has today scaled into a robust innovation-led architecture, powered by Aadhaar, KYC, Jan Dhan, UPI, and an increasingly digital-first mindset among citizens and enterprises.

This transformation has not only expanded access to formal finance but has also enabled India to leapfrog traditional stages of development. The pace of innovation across payments, lending, wealth management, and insurance has been remarkable, and the benefits of this progress are being felt across sectors, demographics, and geographies. Yet, the next phase of India's financial journey will require deeper collaboration between policymakers, industry, technology innovators, and academia.

While the foundations are strong, significant opportunities remain. Financial literacy, regulatory harmonisation, commercialisation pathways for public digital infrastructure, and coordinated policymaking will play a decisive role in determining the speed and scale of India's progress. As new models emerge, the focus must remain on democratising finance, ensuring access, trust, and transparency for every citizen while enabling start-ups and institutions to innovate responsibly.

This report aims to bring together insights from leaders across the financial ecosystem to examine both the achievements and the challenges we face. It outlines the shifts shaping the sector and presents actionable recommendations to strengthen India's financial architecture for the coming decade.

The development of this report has been led by the CII Centre of Excellence for Innovation, Entrepreneurship and Startups (CII CIES), which continues to play a catalytic role in fostering dialogue, supporting high-potential start-ups, and enabling industry-government collaboration. At CII CIES, our mission is to strengthen India's innovation landscape by bringing together the right stakeholders to address systemic challenges and unlock new growth opportunities.

I am confident that the insights presented here will make a meaningful contribution to ongoing national efforts, and I hope this document serves as a valuable reference for policymakers, industry leaders, start-ups, and researchers working towards a more inclusive, efficient, and future-ready financial system for India.

**Kris Gopalakrishnan**

Chairman, CII CIES, Chairman, Axilor Ventures

There is no doubt that India is at an inflection point in its economic transformation and much needs to be done for us to reach our aspiration to be considered a developed nation by 2047. On most metrics such as GDP, market capitalization, corporate profits and exports, India is 3-4% of the world today. We aspire to get to 10% of the world. It implies we need an escape velocity of 9% economic growth over the next 5 years, compared to our 6-7% growth today.

Our demographic of 1.4 billion people represents multiple different economies - with the top 4% enjoying earning power of \$40,000+ p.a. like highly developed countries, and the bottom 13% earning less than \$1,500. Of our 1-billion workforce, 42% are employed in the agricultural sector, 23% in manufacturing and 32% in services. Only 37% of the workforce are women. Around 10 million new job seekers get ready to enter the work force annually. The average age of our population is 28 years.

If our economic growth does not keep up, we will get old before we get rich.

Inclusive finance is a secular, scalable and sustainable driver of growth and innovation, and not just a moral imperative. It will help our people, our biggest asset, increase consumption, enhance productivity, and drive exports.

Over the last decade, targeted policy and technology interventions - like the Pradhan Mantri Jan Dhan Yojana, Aadhaar, UPI - have catalyzed true mass inclusion: over 80% of adults now have bank accounts and rural access gaps have narrowed substantially. The finance innovation ecosystem in the country has grown to now encompass more than 10,000 fin-techs and 9,000 NBFCs. Mobile-first platforms, instant KYC, and embedded finance are making it both profitable and impactful to serve the next half-billion consumers. Startups are using alternative data to underwrite new-to-credit borrowers, building multilingual interfaces for regional reach, and enabling micro-investing for the middle and lower segments. Digital financial access is now empirically linked to macro growth. Every rupee of capital or protection delivered at the “last mile” unlocks disproportionately large social and economic multipliers.

But this is just the start. Real inclusion happens when these accounts become gateways to credit, insurance, investment, and entrepreneurship, especially for MSMEs, micro-entrepreneurs, and millions more gig and blue-collar workers. It's not just about opening bank accounts, but enabling people to build resilient lives, invest in new opportunities, and weather shocks. India's demographic profile—young, tech-savvy, and mobile—makes it the ideal testbed for giant leaps in digital financial inclusion.

Getting to our aspiration is not without its challenges, which are substantial. Gaps persist in adoption, ensuring sustainable individual outcomes, credit enablement, regulatory coordination, regulatory compliance burden, and policy certainty for startups. However, some of these are precisely the zones where fintech agility, data science, and public-private collaboration can create value. The next wave of fintech unicorns will likely be those who crack the code for sustainable, inclusive growth.

This comprehensive report from Grant Thornton India and CII captures the evolution of India's financial inclusion ecosystem and recommends measures to overcome the challenges to rapid progress. It is a must-read for fin-tech entrepreneurs, investors and policy makers.

We are unlike other nations. Our heterogeneity requires financial inclusivity to make products available across all strata of society - income, geography, gender, social status - for both economic and political reasons. It binds our economic aspirations to the lives of 1.4 billion people. If we combine fintech innovation, policy support, and social intent, India can achieve not just high growth, but meaningful prosperity for every citizen.

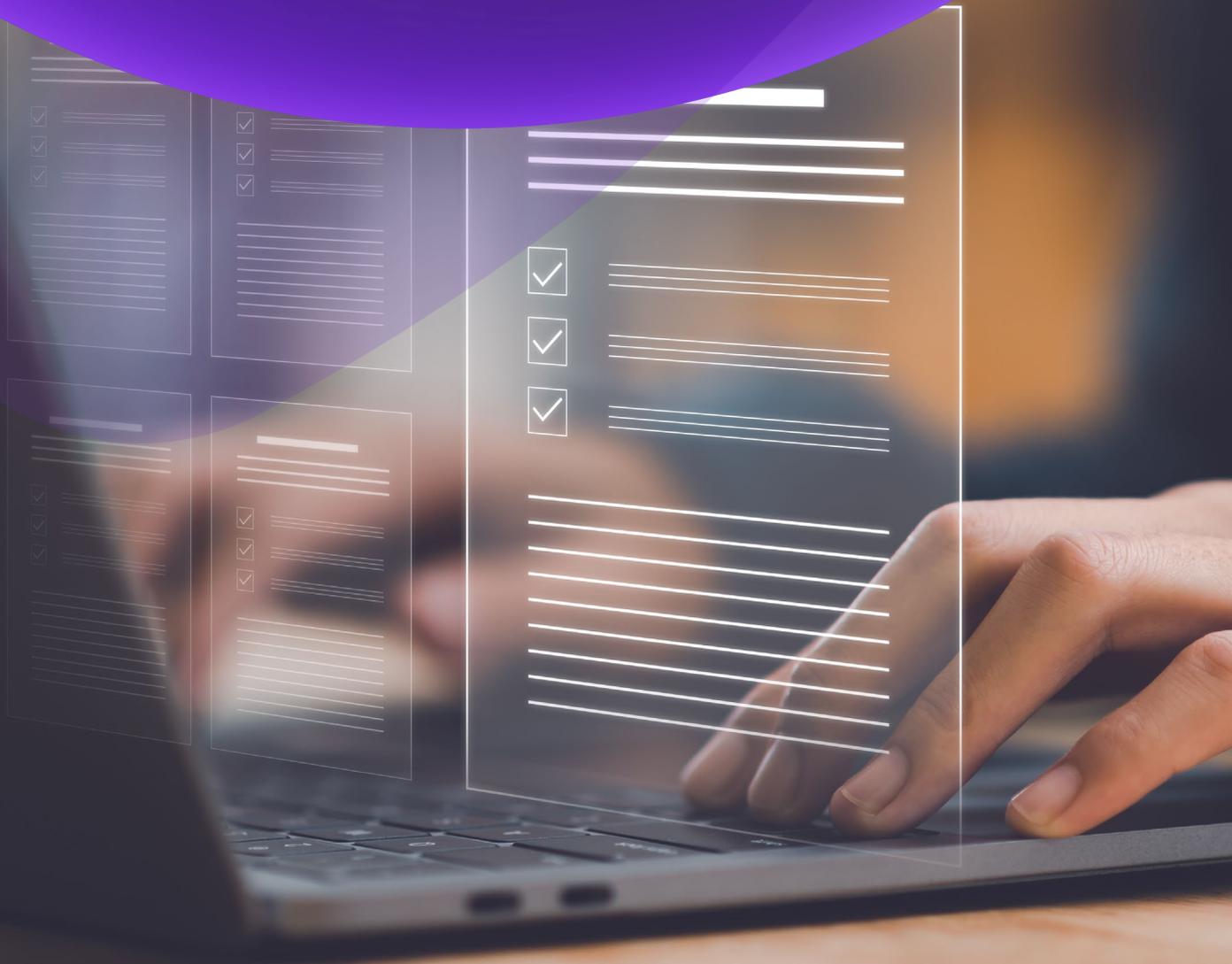
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# Introduction



## Defining financial inclusion in the Indian context

### The imperative for equitable and sustainable development

Globally, financial inclusion is recognised as a catalyst for economic growth, poverty alleviation, and social equity. In India, it plays a pivotal role in:

- Job creation and entrepreneurship
- Reducing income inequality
- Enhancing resilience to economic shocks
- Promoting gender equality and women's empowerment

The United Nations' Sustainable Development Goals (SDGs) explicitly identify financial inclusion as a key enabler of inclusive and sustainable development. In particular, the inclusion of women in the financial mainstream has shown transformative potential for household welfare and community progress.

Financial inclusion has been defined as “the process of ensuring access to financial services, timely and adequate credit for vulnerable groups, such as weaker sections and low-income groups at an affordable cost”. The Committee on Medium-Term Path to Financial Inclusion has set the vision for financial inclusion as, “Convenient access to a basket of basic formal financial products and services that should include savings, remittance, credit, government-supported insurance and pension products to small and marginal farmers and low-income households at reasonable cost with adequate protection progressively supplemented by social cash transfers, besides increasing the access of small and marginal enterprises to formal finance with a greater reliance on technology to cut costs and improve service delivery”.

Financial inclusion in India refers to the process of ensuring that vulnerable and low-income groups have equitable access to a full spectrum of financial services—banking, credit, insurance, and digital payments—delivered affordably and on time. Historically rooted in the developmental agenda of the Indian government since the 1950s, the concept has evolved from simply expanding banking infrastructure to enabling meaningful financial participation.

The 2008 Rangarajan Committee broadened the definition to include not just access, but also availability of adequate and timely credit at affordable costs. This shift reflects a deeper understanding: financial inclusion is not just about opening bank accounts—it's about empowering individuals to improve livelihoods, build resilience, and participate actively in the economy.

## Key initiatives driving financial inclusion in India

Impactful government schemes and regulatory support have shaped India's financial inclusion journey. The Pradhan Mantri Jan Dhan Yojana (PMJDY) brought banking services to over 50 crore people, while the Atal Pension Yojana (APY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) expanded social security coverage. The Kisan Credit Card (KCC) and Pradhan Mantri MUDRA Yojana (PMMY) enhanced access to credit for farmers and small businesses. At the same time, Stand-Up India promoted entrepreneurship among women and marginalised groups. RBI initiatives, such as the Lead Bank Scheme, Regional Rural Banks (RRBs), and Self-Help Group (SHG) linkage, strengthened rural outreach. Meanwhile, the Business Correspondent model and relaxed Know Your Customer (KYC) norms enabled last-mile access. The national strategy for financial inclusion, along with the FI-Index, has provided a clear roadmap and measurable progress toward a more inclusive financial system.

India's financial inclusion initiatives have led to remarkable progress in expanding access to formal financial services. Over 80% of adults now own bank accounts, primarily due to schemes like the Pradhan Mantri Jan Dhan Yojana (PMJDY), which have also helped reduce the gender gap and bridge rural-urban disparities. The rise of digital platforms, such as UPI, AEPS, and mobile banking, has transformed financial transactions, making them more accessible and efficient. Credit and insurance access have improved through programmes like Kisan Credit Card (KCC), the Pradhan Mantri MUDRA Yojana (PMMY), the Pradhan Mantri Suraksha Bima Yojana (PMSBY), and the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY). At the same time, self-help groups (SHGs) have empowered rural women economically. The JAM trinity (Jan Dhan-Aadhaar-Mobile) has streamlined direct benefit transfers, ensuring the timely and transparent delivery of government benefits. Overall, financial inclusion has strengthened economic resilience, reduced poverty, and enhanced social equity, especially among underserved communities. Efforts such as expanding rural branches, deploying banking correspondents, and introducing digital tools have helped bridge these gaps. The number of rural branches has grown from 33,000 to over 50,000, and basic savings accounts have surged from 73 million to 533 million. The Digital India initiative, backed by over USD 18 billion, is further enhancing last-mile connectivity and promoting a cashless economy. With continued focus on technology and tailored financial services, India is steadily moving toward inclusive and accessible finance for all.

## Way forward

India has made notable progress in financial inclusion through government schemes and RBI-led initiatives, expanding access to banking and digital services. However, challenges such as dormant accounts, regional gaps, regulatory clarity, and limited financial literacy persist. Despite improvements, access remains uneven—especially in remote areas where only 38% of scheduled commercial banks have branches, and women make up over two-thirds of the unbanked population. While millions have opened accounts, less than 30% are actively used.

Moving forward, promoting active account usage through financial literacy campaigns, addressing social and gender barriers, and enhancing outreach models, such as banking correspondents, are essential. The responsible use of emerging technologies, combined with robust data protection and effective collaboration among stakeholders, will be crucial to building a truly inclusive and resilient financial ecosystem.



# Evolution of finance in India



## 1950's-1980's: Early history and financial foundation

India's financial system has undergone a profound transformation since gaining independence in 1947. From a fragmented and underdeveloped structure, it has evolved into a robust, diversified, and globally integrated framework. This evolution can be broadly categorised into three distinct phases: the early years of instability and limited regulation, the era of nationalisation and financial repression, and the post-1991 phase of liberalisation and financial deepening.

At the time of independence, India inherited a financial system that was largely unstable and lacked a cohesive regulatory framework. The banking sector was dominated by the Imperial Bank of India (which later became the State Bank of India), along with joint-stock banks and foreign exchange banks. These institutions primarily served urban centers and commercial interests, offering limited access to credit for the broader population, especially in rural areas where the majority of Indians resided. The Reserve Bank of India (RBI), established in 1934 and nationalised in 1949, was tasked with overseeing monetary policy and ensuring financial stability. In response to widespread bank failures during the early 20th century, particularly due to the economic disruptions caused by World War I and World War II, the Banking Regulation Act was enacted in 1949. This legislation laid the groundwork for a regulated banking environment, aiming to protect depositors and foster orderly growth.

Despite efforts in the 1950s and 1960s to expand banking services to underserved regions, the system remained inadequate in meeting the developmental needs of a newly independent nation. Recognising the limitations of private banking in supporting inclusive growth, the government initiated a major structural shift in 1969 under Prime Minister Indira Gandhi by nationalising 14 major private banks. This move was intended to align the financial sector with the government's socialist-oriented economic policies, directing credit toward priority sectors, such as agriculture, small-scale industries, and exports. A second wave of nationalisation occurred in 1980, resulting in the state's control over six additional banks. While these measures significantly expanded the reach of banking services across India, they also introduced inefficiencies. Banks were mandated to hold a substantial portion of their assets in government securities, which limited their ability to lend to the private sector. The rigid interest rate regime and sectoral credit targets led to the misallocation of resources and stifled innovation.

During this period, development finance institutions (DFIs), such as the Industrial Development Bank of India (IDBI) and the Industrial Credit and Investment Corporation of India (ICICI), were established to support large-scale industrial projects. However, these institutions eventually faced challenges, including rising non-performing assets (NPAs) and questions about their long-term viability. The insurance sector also underwent significant restructuring, with the Life Insurance Corporation of India (LIC) being nationalised in 1956, followed by the nationalisation of general insurance in 1972. By the late 1980s, India's financial sector was almost entirely state-owned, characterised by low profitability, poor customer service, and operational inefficiencies. This era of financial repression underscored the urgent need for comprehensive reforms to unlock the sector's potential.

The economic crisis of 1991 marked a turning point in India's financial history. Faced with a severe balance of payments crisis, the government embarked on a path of liberalisation and structural reforms. A key component of these reforms was the modernisation of capital markets. The establishment of the Securities and Exchange Board of India (SEBI) in 1992 introduced a new era of transparency, regulation, and investor protection. The opening of the economy to foreign institutional investors (FIIs) brought in much-needed capital and accelerated the growth of equity markets. The launch of the National Stock Exchange (NSE) and the transition to electronic trading platforms revolutionised stock trading in India, making it more efficient and accessible to a broader population.

The performance of India's stock indices reflects the dynamism of this period. The Bombay Stock Exchange (BSE) Sensex, launched in 1986 with a base value of 100 (as of 1979), surged past the 4,000 mark in 1992, signaling investor confidence in the liberalisation process. The NSE Nifty 50, introduced in 1996 with an initial base value of 1,000, quickly became one of the most closely tracked indices in the country, serving as a barometer of India's economic health. The liberalisation era also saw the emergence of private sector banks, non-banking financial companies (NBFCs), and fintech firms, which introduced competition and innovation into the financial ecosystem.

## Microfinance: Role in financial inclusion

India's financial system has evolved significantly over the decades, with microfinance emerging as a vital tool to bridge the gap between formal financial institutions and underserved populations. Initially, the access to financial services was limited for rural and low-income communities due to high collateral requirements, lack of documentation, and limited outreach of traditional banks. Microfinance addressed these barriers by offering small, collateral-free loans, savings, and insurance products tailored to the needs of the poor.

The journey began with the establishment of the SEWA Bank in 1974 in Gujarat, which focused on empowering poor women through financial services. This marked a shift toward inclusive finance, recognising the economic potential of women and informal workers. Over time, microfinance evolved from isolated efforts to a structured sector supported by policy frameworks and institutional innovations.

A major milestone was the launch of the self-help group (SHG) bank linkage programme by NABARD in 1992. As of December 2024, India had 89.7 lakh active SHGs, managing an outstanding credit portfolio of INR 2.78 lakh crore, with an average loan size of INR 3.1 lakh per SHG. These groups have empowered millions of women, fostering savings habits, credit discipline, and entrepreneurship. Initiatives like the Lakhpati Didi programme have further amplified this impact, with 1 crore women already earning over INR 1 lakh annually and a target of 3 crore by 2026.

The 2000s witnessed the rise of Microfinance Institutions (MFIs), many of which adopted the Grameen model of group lending. Regulatory recognition was achieved with the creation of the NBFC-MFI category, which introduced transparency and accountability to the sector. As of June 2025, the Indian microfinance industry had a total portfolio outstanding of INR 3.07 lakh crore, 10 crore active loans, and six crore unique borrowers, with NBFC-MFIs contributing nearly 40% of the total portfolio.

Despite a 22% year-on-year contraction in portfolio size, the sector remains resilient, with a shift toward higher-quality borrowers and an increase in average ticket sizes. However, challenges persist, with delinquency rates rising — 30-179 days past due loans increased from 2.9% to 6.1%, and 180+ DPD loans now stand at 13%, indicating stress in certain regions.

The emergence of small finance banks (SFBs) and the banking correspondent model further strengthened the microfinance ecosystem. These innovations enabled MFIs to evolve into regulated banking entities, thereby expanding their outreach and product offerings. As of late 2024, India had 92 NBFC-MFIs, 15 banks, and 10 SFBs actively engaged in microfinance, serving 7.9 crore unique borrowers through 13.9 crore active loan accounts and a combined portfolio of INR 3.85 lakh crore.

The launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014 marked another significant milestone in India's financial inclusion journey. This ambitious policy aimed to provide every household with a bank account, along with features like zero-balance accounts, RuPay debit cards, mobile banking, overdraft facilities, and basic life insurance. By August 2025, the PMJDY had opened over 56 crore bank accounts, mobilised INR 2.68 lakh crore in deposits, issued 38 crore RuPay debit cards, and reached 67% of account holders in rural/semi-urban areas, with 56% being women. The PMJDY catalysed a dramatic increase in financial inclusion. Between 2014 and 2017, account ownership rose from 53% to 80%, bringing over 300 million people into the formal financial sector—surpassing global averages and narrowing gaps across income, gender, and geography. Notably, 55% of PMJDY account holders are women, and 67% of accounts are located in rural and semi-urban areas.

The PMJDY has also facilitated Direct Benefit Transfers (DBT) worth INR 6.9 lakh crore in FY 2024–25, integrating millions into the formal economy and reducing leakages in welfare delivery.

Women are central to India's financial inclusion journey, driving economic empowerment, social progress, and national growth. Flagship programmes, such as the Pradhan Mantri Jan Dhan Yojana, have ensured that over 86% of women now own bank accounts. Initiatives like the PM Mudra Yojana and Stand-Up India have accelerated women's entrepreneurship, with nearly 40% of MSMEs led by women. Their participation in credit markets has tripled since 2019, and rural women are increasingly embracing digital finance, narrowing the access gap. Despite persistent challenges, such as limited collateral, documentation hurdles, and socio-cultural constraints, women reinvest earnings into family welfare, creating a multiplier effect on education and health. Notably, women account for about 64% of all PMMY loans, underscoring their growing role in enterprise

development. As India seeks to unlock the full potential of its entrepreneurial ecosystem, the rise of women-led MSMEs signals a future of inclusive and equitable growth.

Over the decades, microfinance has proven to be more than just a financial tool; it has become a catalyst for social empowerment, gender equity, and economic development. By targeting the most vulnerable segments of society, it has helped build financial literacy, promote savings habits, and reduce vulnerability to economic shocks. While challenges such as regional disparities and over-indebtedness persist, the sector continues to evolve, driving India closer to its goal of universal financial inclusion.

## Technology in finance: Early digitisation efforts and adoption

Before 2010, India's digital payment infrastructure was still in its early stages of development. The Reserve Bank of India (RBI) laid the foundation for electronic fund transfers by introducing key systems, including the Real-Time Gross Settlement (RTGS) in 2004 and the National Electronic Funds Transfer (NEFT) in 2005. These mechanisms enabled faster and more secure interbank transactions, primarily benefiting urban populations and formal banking channels. In addition, the Electronic Clearing Service (ECS) facilitated bulk payments, such as salaries and dividends, further nudging the financial system toward digitisation.

Despite these advancements, financial inclusion remained low. In 2011, only 35% of adults in India had a bank account, which was well below the average for emerging economies. Savings and borrowing through formal institutions were even lower, at 12% and 8%, respectively. Cash continued to dominate transactions, with currency in circulation at 12% of GDP, and ATM penetration was limited to 21 per 100,000 adults, according to the IMF's Financial Access Survey.

A significant breakthrough came with the launch of Aadhaar in 2010—a biometric digital identity system that revolutionised access to financial services. By 2013, 600 million Aadhaar IDs had been issued, and by 2017, over 90% of the population had enrolled. Aadhaar significantly reduced the cost and complexity of the KYC process, enabling millions to open bank accounts quickly and securely.

India's approach to digital identity was not unique globally, but its scale and cost-efficiency set it apart. While countries like Estonia and Uruguay had similar systems, India's Aadhaar programme achieved mass enrollment at low unit costs, making it a cornerstone of digital financial inclusion.

Aadhaar integration into the PMJDY enabled seamless account opening and benefit transfers. Within a year, 180 million accounts were opened, and by 2020, the number had surged to 404 million, with 86% of accounts active and 73% of users utilising their RuPay cards.

The adoption of digital payments accelerated following the 2016 demonetisation, which prompted consumers and businesses to shift toward cashless transactions. The launch of the Unified Payments Interface (UPI) the same year was a game-changer. UPI enabled instant, interoperable, real-time transactions across banks and platforms, fostering widespread digital payment adoption. This was further supported by the rise of mobile wallets, such as Paytm, MobiKwik, and FreeCharge, as well as the RBI's regulatory framework for Prepaid Payment Instruments (PPIs).

Between 2010 and 2016, mobile banking and app-based payment solutions gained significant traction, driven by the increasing adoption of smartphones and internet penetration. While initial adoption faced hurdles, including trust issues and limited rural infrastructure, the digital ecosystem matured rapidly, laying the groundwork for India's current leadership in digital financial services.

## Leapfrog approach: Skipping traditional steps through tech-driven models

India's financial inclusion journey has been defined by its ability to leapfrog traditional banking models through the strategic use of technology. Rather than relying on slow, infrastructure-heavy expansion of physical bank branches, India adopted a digital-first approach that rapidly scaled access to financial services across its vast population.

The National Strategy for Financial Inclusion 2019–24, released by the Reserve Bank of India (RBI) in 2020, outlined a clear vision: to provide universal access to savings, credit, insurance, and pension products for every eligible adult. Central to this strategy was the use of technology and a multi-stakeholder approach, including the issuance of differentiated banking licenses for small finance banks and payments banks, designed to bridge last-mile connectivity gaps without traditional infrastructure.

The COVID-19 pandemic accelerated this shift. Lockdowns and social distancing drove a surge in digital payments and the adoption of fintech. While fintech firms initially paused operations due to uncertainty, the sector rebounded strongly, attracting USD 3 billion in investment in 2020–21, even amid a global slowdown. This resilience underscored the growing confidence in India's tech-driven financial ecosystem.

Fintech firms have begun to fill critical gaps in MSME financing and consumer credit, particularly for individuals new to formal credit systems. Leveraging alternative data sources, such as supply chain transactions and digital payment histories, these firms bypassed the need for traditional credit scores and physical documentation. Many partnered with regulated entities, such as banks and NBFCs, while others began offering credit directly from their own balance sheets.

The success of UPI exemplifies this transformation. UPI enabled instant, interoperable transactions across platforms, streamlining peer-to-peer payments and allowing small merchants to accept digital payments. By 2023, UPI was processing over 10 billion transactions per month, integrating millions into the formal economy without requiring point-of-sale terminals or card infrastructure.

India's fintech ecosystem is now evolving toward a co-creation model, where banks and fintechs collaborate—banks benefit from fintechs' data-driven insights for credit assessment, while fintechs gain access to regulated financial products without becoming banks themselves. Although areas such as savings and wealth management are still evolving, fintechs are already offering innovative investment platforms.

In essence, India's approach to financial inclusion demonstrates how digital identity, mobile infrastructure, and fintech innovation can enable a country to skip traditional steps and build a modern, inclusive financial system at scale. This leapfrogging model has not only expanded access but also redefined how financial services are delivered in emerging economies.

## Tech stack for inclusion

India's financial landscape is being reshaped by a wave of digital innovations that are expanding access to financial services and enabling inclusive growth. Technologies such as algorithmic trading have transformed stock market operations by allowing trades to be executed at high speeds with minimal human intervention, improving market liquidity and price discovery. In parallel, FinTech-driven investment platforms have democratized access to capital markets, providing retail investors with advanced tools and data-driven strategies that were previously limited to institutional players. These platforms are also making mutual fund investments more accessible, allowing individuals to start investing with minimal capital. By pooling resources from many investors, mutual funds offer diversification and professional management, making them a viable option for modest-income earners who were previously excluded from traditional investment avenues.

Blockchain technology is another key driver of financial inclusion, offering secure, decentralised, and tamper-proof transaction systems. Its application in banking and payments is being explored by the Reserve Bank of India (RBI), which has also launched a pilot for the Digital Rupee - India's central bank digital currency (CBDC). The digital rupee aims to integrate blockchain-based currency into the formal financial system, enhancing transactional efficiency, reducing reliance on cash, and enabling secure digital payments even in remote areas.

Unlike volatile cryptocurrencies, the digital rupee is backed by the central bank, ensuring stability and regulatory oversight.

Fintech firms are also addressing credit access challenges through peer-to-peer lending platforms and digital lending models that use alternative data sources to assess creditworthiness. This is particularly impactful for individuals and small businesses that lack formal credit histories. Robo-advisory services are making financial planning and investment advice more affordable and personalised, while AI-powered chatbots and virtual assistants are improving customer service and engagement. Predictive analytics and big data are enabling more accurate risk assessments and the development of tailored financial products, thereby fostering trust and confidence in the financial system.

Together, these technologies are enabling India to bypass traditional financial development steps, such as expanding physical banking infrastructure, and instead build a digitally inclusive financial ecosystem. The next significant advancement in financial services is the emergence of AI-native banking. In this model, artificial intelligence, particularly Generative AI and large language models (LLMs), is integrated into the core architecture of banking systems. This represents a fundamental redesign rather than an incremental overlay, ensuring that every product, process, and platform is inherently capable of learning, predicting, generating, and adapting autonomously. Decentralised finance (DeFi) provides an alternative to traditional banking by enabling users to lend, borrow, and trade assets directly through digital wallets. This approach fosters a more inclusive, transparent, and continuously operating financial ecosystem, free from the time and infrastructure constraints of conventional banking.

By leveraging innovation, India is not only enhancing access to financial services but also empowering individuals to participate more fully in the formal economy.

## Waves of UPI and GDP linkages: Catalysing digital economy growth

India is setting a new global standard in digital finance, consistently surpassing international benchmarks in both speed and scale. Nearly half of the world's digital transactions now originate from India, a reflection of the country's deep-rooted digital transformation. This momentum is mirrored in its economic performance - India's GDP grew by 8.15% in FY 2023-24 and is projected to grow by 7% in FY 2024-25, reinforcing its position as the fastest-growing major economy. With foreign exchange reserves surpassing USD 700 billion for the first time and the IMF projecting that India will become the third-largest economy by 2027, the digital economy, anchored by UPI, is playing a pivotal role in this ascent.

UPI has emerged as a cornerstone of India's financial inclusion strategy. Its mobile-first, user-friendly design has enabled millions of Indians—regardless of geography or income level—to participate in the formal financial system.

Crucially, UPI has bridged the urban-rural divide in financial access. It has dispelled the myth that digital payments are confined to metropolitan areas, penetrating deep into rural India, where millions previously lacked access to formal banking. By enabling real-time, low-cost transactions, UPI has empowered gig workers, small merchants, and self-employed individuals - many of whom operate outside traditional employment structures - to engage in the digital economy. This has supported income generation and aligned with India's evolving employment trends, where informal and freelance work is increasingly prominent.

The impact of UPI on formalisation is equally significant. According to SBI research, the share of the informal economy in gross value added (GVA) decreased to 15-20% in 2020-21, with UPI playing a key role in digitising transactions and reducing cash-based transactions. This shift has improved transparency, enhanced tax compliance, and boosted government revenues - resources that are vital for public investment in infrastructure, healthcare, and education. The rise in internet usage for business, particularly in rural areas, further underscores the informal sector's adoption of digital tools.

Empirical evidence supports the economic impact of UPI. A 1% increase in UPI transaction volume correlates with a 0.03% rise in GDP growth, demonstrating a direct link between digital payments and macroeconomic expansion. UPI has also strengthened the financial backbone of micro, small, and medium enterprises (MSMEs), providing them with a reliable platform to accept payments, improve cash flow, and build credit histories. This has led to a doubling of microloan disbursements between 2018 and 2023, showcasing the synergy between digital payments and financial empowerment.

The integration of UPI with Aadhaar, India's digital identity system covering over 1.4 billion citizens, ensures secure and authenticated transactions. This linkage has been instrumental in delivering welfare benefits directly to beneficiaries, minimising leakages, and saving the government an estimated INR 3.4 lakh crore since inception. The system's credibility and efficiency have made it a cornerstone of India's social support infrastructure, reinforcing the role of digital finance in inclusive development.

Internationally, UPI is gaining traction in markets such as the UAE, Singapore, Australia, Canada, and the UK, among others. Its success in cross-border payments is enhancing India's soft power and positioning UPI as a model for global digital payment systems. Unlike many foreign counterparts, UPI offers unmatched scalability, security, and simplicity, making it a benchmark for digital financial innovation.

In essence, UPI is not just a payment system - it is a transformative force that is reshaping India's economic and social landscape. It connects aspirations with opportunity, drives formalisation, supports entrepreneurship, and strengthens the fiscal framework. As India marches toward becoming a developed economy, UPI stands as a symbol of inclusive growth, technological leadership, and national progress.

## Outlined below are significant contributors to India's economic expansion:

- 1. Goods and Services Tax:** The introduction of the GST in 2017 marked a landmark reform in India's taxation system, replacing multiple indirect taxes with a unified structure. By eliminating the cascading effect of taxes, GST created a seamless national market, simplified compliance, and improved operational efficiency for businesses through input tax credits. Consumers benefit from lower costs, while the government has achieved higher revenue collection and reduced tax evasion. Notably, GST has enhanced fiscal stability by providing a predictable and robust revenue stream, supported by the greater formalisation of the economy and reduced leakage. Although initial challenges, such as inflationary trends and compliance hurdles, were observed, GST has delivered long-term benefits by fostering ease of doing business, encouraging investment, and contributing positively to India's GDP growth.
- 2. Thriving fintech start-up ecosystem:** India's growth story has been characterised by the remarkable progress witnessed in the fintech sector, fuelled by rising smartphone penetration, a robust digital payments infrastructure, and policy-level support. Key players are leveraging technologies such as AI and API-driven models to enhance financial inclusion and deliver innovative solutions, supported by a thriving start-up ecosystem that positions India as a global fintech hub. The market is projected to reach USD 2.1 trillion by 2030, growing at a CAGR of 18% over the next few years. The COVID-19 pandemic accelerated digital adoption among retail consumers and MSMEs, driving awareness and acceptance of fintech solutions. The increasing formalisation of the economy and expanding digital infrastructure have further boosted demand, particularly in rural areas, where consumerism and e-commerce growth (22% in rural areas vs. 15% in urban regions) are creating new opportunities and fuelling credit demand.

- 3. Rise of NBFCs:** Over the past decade, India's financial intermediation ecosystem has undergone a significant transformation. Public sector banks, once the primary source of credit, faced mounting asset quality issues and rising NPAs between 2012 and 2014, leading to a slowdown in lending, particularly to underpenetrated segments such as MSMEs, affordable housing, and rural consumers. NBFCs stepped in to fill this gap, leveraging flexible models, sectoral expertise, and innovative credit evaluation methods tailored to small borrowers. Their ability to serve niche markets—often overlooked by traditional banks—enabled NBFCs to drive credit expansion in critical sectors, fuelling financial inclusion and economic growth. Between 2014 and 2018, NBFCs experienced exponential growth in loan books, market share, and investor interest, establishing themselves as a vital component of India's financial system.
- 4. Account Aggregator framework:** India's Account Aggregator (AA) framework, introduced by the Reserve Bank of India in 2016, represents a transformative step toward customer-centric financial data sharing. By enabling individuals to share financial information across institutions with explicit consent securely, the AA system addresses the fragmentation of data silos and inefficiencies in processes such as loan applications. This framework enhances financial inclusion by streamlining credit assessments, reducing documentation, and lowering onboarding costs, thereby accelerating access to credit for individuals and MSMEs. Its robust technical infrastructure—built on APIs, encryption, and zero-data storage—ensures security and interoperability, while standardised data formats promote seamless integration across banks, insurers, and fintech platforms. The AA ecosystem fosters innovation in digital lending, wealth management, and personalised financial services, enhancing efficiency and transparency within the financial sector. By improving credit flow, reducing risk, and enabling the development of tailored financial products, the AA framework makes a significant contribution to economic growth and positions India as a global leader in open banking and data governance.
- 5. Penetration of e-Commerce:** India's e-Commerce sector has emerged as a significant driver of GDP growth, particularly through its impact on smaller cities and MSMEs. The Digital India Programme, launched in 2015, has bridged the digital divide, enabling millions of small businesses to digitise operations and access national markets. Social commerce and online retail have experienced strong penetration in Tier 2 and Tier 3 cities, reflecting the sector's deep reach beyond metropolitan areas. Investments in logistics infrastructure, including expanded warehouses and partnerships for last-mile delivery, have improved supply chain efficiency. This expansion has generated hundreds of thousands of jobs in warehousing, logistics, and customer support, while fostering digital entrepreneurship through social and mobile platforms. By empowering MSMEs, creating employment opportunities, and driving consumption in smaller cities, e-commerce is playing a pivotal role in strengthening India's economic growth trajectory.

# Current policy environment and trade-offs



India's journey towards democratising finance has been driven by an ambitious policy vision that combines digital public infrastructure with inclusive regulatory frameworks. Government-led platforms, such as **UPI**, **GST**, and the **Account Aggregator (AA)** framework, have transformed the financial landscape. This transition is based on digital innovation, progressive policy frameworks, and collaborative efforts between government agencies, regulators, and market participants.

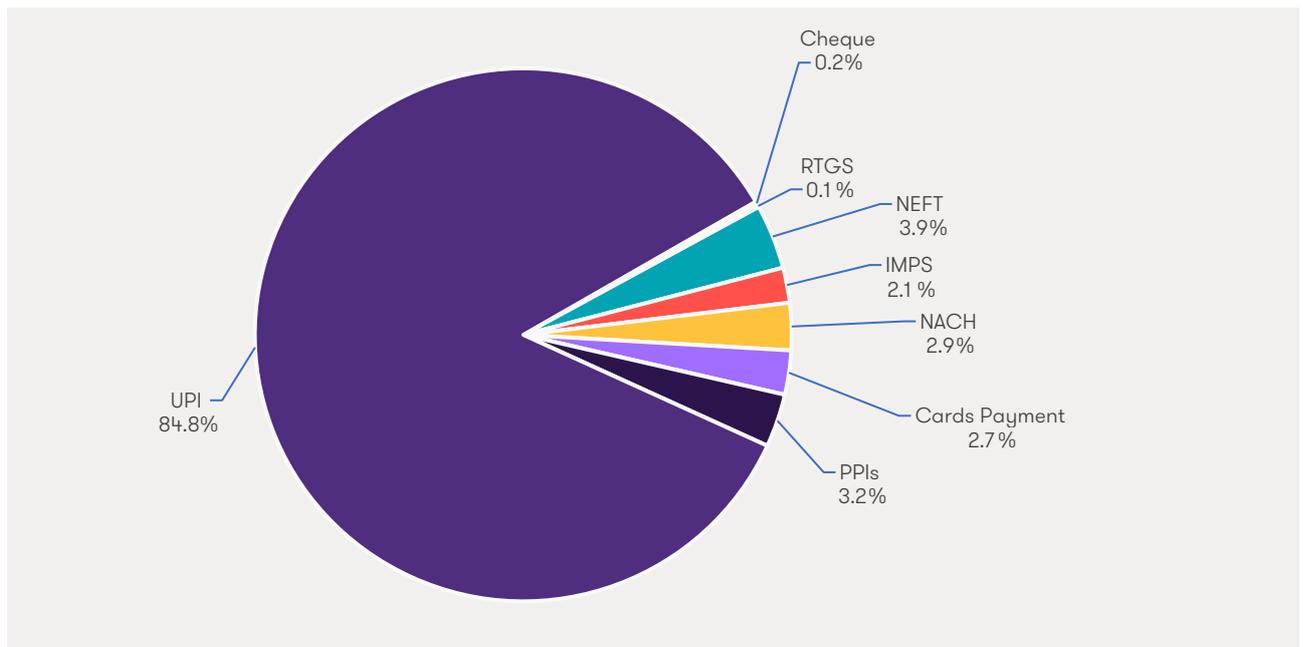
Yet, the challenge today is not access alone, but **ensuring sustainability, equitable participation, and long-term value creation** within these public digital systems.

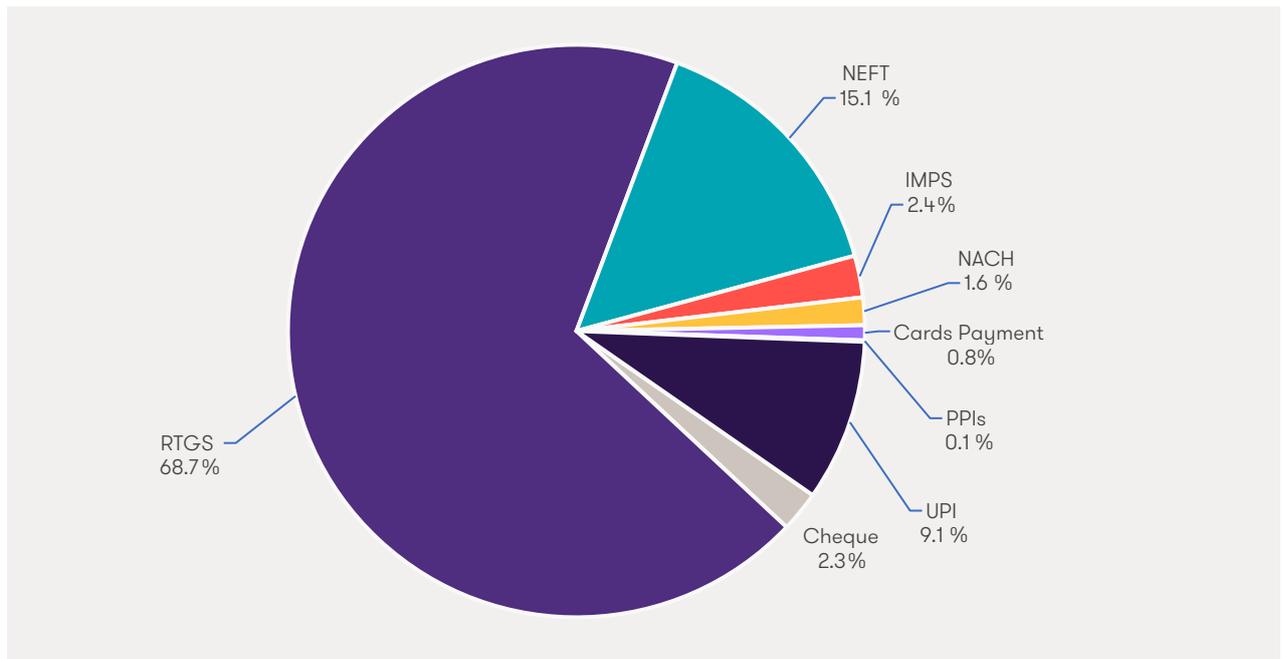
## 1. Free UPI model: Opportunities and challenges

The **UPI**, designed and operated by the **National Payments Corporation of India (NPCI)**, has been central to India's drive to digitise payments and promote financial inclusion.

The RBI's half-yearly **Payment Systems Report, June 2025**, highlights the continued expansion of the UPI, which has completely transformed digital payments in India, bringing about significant enhancements across various payment instruments and thereby promoting a diversified and inclusive payments ecosystem. The report highlights that digital payments accounted for ~99.7% of total transaction volume in 2024, and in H1 2025, digital payments comprised ~99.8% of volume. UPI, in particular, accounted for ~85% of the volume of retail digital transactions in H1 2025, although only around 9% of the value – reflecting its strong role in small-ticket payments.

Chart 1: Share of Payment Instruments in Total Payments -Volume for H1:2025



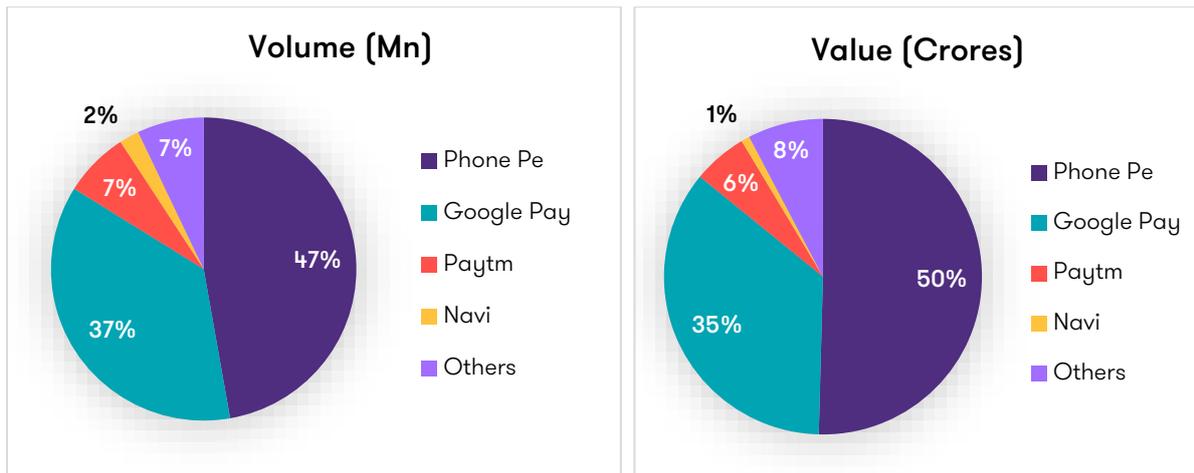


These numbers underpin the argument that UPI is succeeding in delivering mass access to digital payments across India, including for previously underserved populations.

From its inception, UPI has been promoted as a low-cost or **zero Merchant Discount Rate (MDR)** system for end-users and merchants (in many cases). The MDR waiver is viewed as a public good, supporting digital inclusion, reducing reliance on cash, and lowering transaction costs for both merchants and consumers.

#### Opportunities arising from the model

- **Rapid adoption:** The scale of transactions and growth demonstrates that UPI has successfully lowered barriers, enabling millions of users and merchants to engage in digital payments.
- **Inclusion leverage:** Since the cost barrier is minimal, even micro-merchants and low-income users can transact digitally, aligning with the goal of democratising access to finance.
- **Foundation for innovation:** UPI’s infrastructure enables overlay services — such as merchant analytics, embedded finance, credit underwriting, and fintech innovation — which can bridge into broader financial inclusion goals.
- Despite these successes, the zero-cost model poses **structural challenges** for commercial viability and long-term ecosystem sustainability.
- **Monetisation constraint and concentration risk:** With MDR effectively zero, payment service providers (PSPs), fintechs, acquiring banks, and other intermediaries must absorb infrastructure, compliance, onboarding, and servicing costs without a direct transactional fee revenue stream. This limits their business model options. Because monetisation is weak, smaller and more specialised FinTechs may struggle to scale or survive, which could reduce diversity, competition and innovation in the ecosystem. **Data show that two major players (Google Pay and PhonePe) dominate the UPI ecosystem: In August 2025, they accounted for over 84% of volume. Currently, only two apps out of over 84 UPI apps — PhonePe and Google Pay—account for over 84% of all UPI transactions in India, by both volume and value, according to data from the [National Payments Corporation of India](#).**



**Infrastructure costs and funding: Large-scale growth (e.g., daily, hundreds of millions of transactions)** puts a strain on infrastructure, settlement systems, cybersecurity, and compliance regimes. For example, the NPCI's FY25 annual report noted its revenue rose to ~ INR 3,270 crore and profit jumped 42%. In the absence of direct transaction fees, either government subsidies or alternative revenue channels become critical for covering maintenance, upgrade, and risk-management costs. This raises questions about who bears the long-term cost of "free" infrastructure.

#### Policy implications – Balancing accessibility and sustainability

- To preserve the democratic ethos of UPI while ensuring a vibrant, competitive payments ecosystem, policymakers face a number of key trade-offs:
- **Selective cost recovery:** The idea of introducing a modest MDR for large merchants (e.g., ~0.2-0.3 %) is under discussion, with potential to channel funds into maintenance and innovation without burdening micro-merchants.
- **Tiered models:** Differentiated pricing or cost-sharing models (free for micro-merchants and low-value transactions; cost-based charges for high-value/large merchants) could align incentives while maintaining inclusion.
- **Incentivising value-added services:** Encouraging and supporting overlay fintech innovation (credit, insurance, analytics) that leverages UPI infrastructure could unlock monetisation and deeper financial inclusion.
- **Regulatory clarity and competition safeguards:** Ensuring open access, interoperability, and fair competition is critical as the ecosystem scales and commercial incentives evolve. For example, the delay on market share cap for third-party apps underscores the dominance risks.
- **Public funding mechanisms:** Given the public-goods nature of the payments infrastructure, the state may need to allocate subsidies or establish public-private cost-sharing arrangements to ensure the network remains both inclusive and resilient.
- [Balancing SDG, e.g., carbon/climate goals, with financial inclusion. E.g., how do we provide viable financial products to fishermen in the event of catastrophic climate events beyond government subsidies/aid?]

Achieving this balance will be key to ensuring that UPI does not merely remain a payment channel but becomes a launchpad for deeper financial democracy, including credit access, savings mobilisation, micro-enterprise growth, and inclusive prosperity.

## 2. Limited commercialisation activities and their impact

Limited commercialisation in India's digital payments ecosystem, especially with UPI's zero-fee regime, has significantly constrained fintech revenue models, compelling firms to innovate beyond basic transaction services. The absence of direct monetisation through payment fees means that fintechs must rely on alternative, often indirect, sources of income.

The deliberate restrictions on UPI commercialisation, such as the zero merchant discount rate, ensure universal access but limit the revenue-generating capabilities of banks, start-ups, and payment providers. As a result:

- Banks often find little incentive to innovate beyond mandatory frameworks, as most revenues come from value-added or ancillary services rather than core transaction fees.
- Start-ups and fintechs face monetisation challenges in a government-driven model, as they cannot levy transaction charges or offer differentiated services.
- The government's policy posture aims to strike a balance: maintaining affordability and inclusion while not stifling competition or service improvement.

### Revenue model challenges

India's limited commercialisation policy has democratised digital payment adoption, but it has also made fintech sustainability reliant on diversification, data monetisation, and expanded service portfolios. While leading firms have partially offset the revenue gap through embedded finance and partnerships, smaller firms face high entry barriers. Gradual reforms enabling selective commercialisation, tiered services, and fairer incentive distribution would strengthen both innovation and competition within the sector.

## 3. Linking digital adoption to monetary outcomes

While digital financial adoption has soared, the corresponding **monetary outcomes** for users remain inconsistent. Digital access does not automatically translate to improved **financial well-being, credit inclusion, or income growth**.

For instance, as of 31 July 2025, under the Pradhan Mantri Jan Dhan Yojana (PMJDY), approximately 56.03 crore (560.3 million) accounts had been opened. Out of these, around **13.04 crore (130.4 million) accounts**, i.e., ~23%, were reported as *inoperative/dormant*. The percentage of dormant accounts is a key indicator that access does **not** automatically equal usage or outcomes.

While the digital payments ecosystem has grown dramatically and adoption of digital payments is extremely high, this alone does not guarantee that those using payment systems are moving into financial-wellbeing outcomes (savings growth, credit access, income enhancement).

According to an **India Brand Equity Foundation (IBEF, 2025)** industry overview (drawing on **RBI Financial Stability Report and SIDBI data**), the **MSME credit grew by approximately 14.1% in FY 2024–25**, with the sector's share in overall bank lending rising to **17.7%**. This growth has been supported by digital public infrastructure, data-based underwriting, and government schemes, such as the **Emergency Credit Line Guarantee Scheme (ECLGS)**, **PSB Loans in 59 Minutes**, and **Mudra Yojana**.

However, beneath this aggregate growth lies a persistent **credit access asymmetry**. Data from the **International Finance Corporation (IFC) and the Ministry of MSME** estimate India's total **MSME credit gap at around INR 20–25 lakh crore**, concentrated mainly in the **micro-enterprise segment**. Over **80% of micro and small enterprises remain outside the reach of formal finance**, relying instead on informal credit networks despite being digitally active through UPI and GST platforms.

The next phase of policy evolution must therefore focus on **converting digital activity into economic empowerment**. Integrating data-driven credit scoring, linking transaction histories to formal credit pipelines, and embedding financial literacy initiatives are key to ensuring that **digital participation leads to tangible economic mobility**.

#### 4. Uneven adoption across socio-economic groups

UPI adoption has scaled rapidly nationwide, but significant regional disparities persist. Urban, affluent, and younger populations exhibit significantly higher awareness and utilisation, whereas rural, lower-income, and less digitally literate groups adopt UPI at a slower pace, despite targeted government programmes.

**Urban vs rural:** Awareness in urban areas is as high as 92%, compared to 62% in rural regions. Regular urban usage aligns with awareness rates, while rural adoption primarily increases due to government campaigns and integration with welfare schemes.

**Income group:** Individuals in the top 20% income bracket are roughly twice as likely to use UPI than those in the bottom 40%. Recent studies indicate the top 10% (by spending) have an ability to use UPI about twice as high as the bottom 25%, although overall penetration in lower-income groups is now near 50%.

**State-level adoption:** Leading states, such as Maharashtra, Karnataka, UP, and Tamil Nadu, show the greatest transaction volumes and densities, with faster infrastructure deployment and more extensive merchant networks. Nagaland, Mizoram, Sikkim, and Ladakh lag primarily due to gaps in infrastructure and digital literacy. This can be improved by increasing digital literacy and developing better infrastructure to support digital adoption. *\*Please refer to the NPCI website for detailed state wise statistics*

State-wise UPI product statistics* (August'25)				
State / Union territory	Volume (in Mn)	Volume contribution	Value (in Cr.)	Value contribution
MAHARASHTRA	1,985.58	9.92%	2,32,558.18	9.36%
KARNATAKA	1,077.76	5.39%	1,42,488.77	5.73%
UTTAR PRADESH	1,059.40	5.29%	1,31,586.50	5.29%
TELANGANA	803.98	4.02%	1,22,333.79	4.92%
TAMIL NADU	799.24	3.99%	1,18,149.83	4.75%
NAGALAND	12.24	0.06%	1,752.82	0.07%
MIZORAM	11.86	0.06%	1,704.97	0.07%
DADRA & NAGAR HAVELI & DAMAN & DIU	10.82	0.05%	1,112.70	0.04%
SIKKIM	8.11	0.04%	988.11	0.04%
LADAKH	4.48	0.02%	781.31	0.03%
ANDAMAN & NICOBAR	3.77	0.02%	551.26	0.02%
LAKSHADWEEP	0.56	0.00%	55.68	0.00%

**Demographics:** UPI usage peaks among 18–to 35-year-olds, tapering off for older populations, most notably in rural areas. Women in patriarchal or underserved states use UPI less frequently, highlighting gender digital divides

This uneven adoption highlights a critical insight: the role of digital access in achieving **financial inclusion**. Targeted policy interventions—such as vernacular interface development, digital literacy campaigns, and women-centric financial education programmes—are essential to deepen and democratise participation.

## 5. Case study

### **GST ecosystem (portals, GSPs); rise of start-ups, but limited players due to high compliance burden**

The GST system in India, facilitated by the comprehensive GST Network (GSTN) portal and the ecosystem of GST Suvidha Providers (GSPs), represents a landmark digital public infrastructure supporting transparent and unified indirect tax compliance. The government, through GSTN, provides a centralised platform that handles taxpayer registration, return filing, tax payments, and refund processing, significantly simplifying interactions between taxpayers and tax authorities.

The continuous digital, legal, and procedural enhancements, such as e-invoicing, the Invoice Management System (IMS), the GST Appellate Tribunal (GSTAT), and the introduction of mandatory Input Service Distributor (ISD) registration, are aimed at strengthening compliance frameworks while encouraging taxpayer participation. The progressive rollout of GST 2.0 reforms also includes rationalised tax slabs, automated refunds, pre-filled returns, and expedited dispute resolution mechanisms designed to reduce compliance complexity and administrative burdens.

Despite these initiatives and the emergence of a vibrant start-up ecosystem that delivers innovative GST compliance solutions and software through GSPs, the overall environment remains challenging for new entrants. The compliance burden is substantial, with regular updates, rigid procedural mandates, and intricate regulatory requirements creating high entry barriers. Start-ups often struggle with scalability issues, cost pressures, and the constant need to adapt to legal and technological changes, which limits the number of sustainable players in the GST compliance market.

India's GST ecosystem, powered by robust government digital infrastructure and supported by a growing cadre of specialised start-ups, has made commendable strides in simplifying indirect tax compliance. However, a sustained policy focus is essential to further reduce compliance burdens, foster start-up innovation and competition, and ensure that the GST framework catalyses broad-based economic growth and formalisation, particularly for MSMEs and emerging sectors.

This case exemplifies a recurring pattern in India's digital finance journey: **government-led platforms enable foundational access but inadvertently limit entrepreneurial diversity** through excessive compliance requirements and restricted monetisation opportunities. A calibrated approach—where the government maintains control over infrastructure while allowing competitive private innovation layers—could help achieve both inclusion and sustainability.



# Regulatory / Market gaps, challenges and emerging policy priorities



## Regulatory gaps and emerging policy priorities

India's financial inclusion journey has been underpinned by a robust regulatory ecosystem led by the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and the Insurance Regulatory and Development Authority of India (IRDAI). However, even as the country has pioneered digital public goods, such as UPI, Aadhaar, and Account Aggregator, the regulatory environment has not fully evolved to support innovation-led finance.

India's banking industry faces a complex array of regulatory hurdles that hinder progress toward financial inclusion. The RBI plays a central role as the chief regulator, supervising deposit-taking institutions and safeguarding financial stability through mechanisms such as prudential standards, capital adequacy norms, and liquidity control frameworks. Despite these efforts, deep-seated structural issues persist and continue to pose significant challenges. The issues range from fragmented regulation to digital and social barriers, persistent account dormancy, and regional disparities.

This chapter examines the regulatory shortcomings and challenges within India's financial ecosystem that impede broader financial inclusion. It also examines global best practices and regulatory measures implemented by developed countries, providing potential insights and recommendations for enhancing India's financial regulatory framework.

### A. Regulatory challenges in Indian banking system

- 1. Fragmented regulatory oversight:** The presence of multiple regulators, such as the RBI, SEBI, and IRDAI, often leads to overlapping directives, inconsistent enforcement, and “regulatory cholesterol”. This fragmentation results in coordination difficulties and sometimes conflicting policies, limiting the creation of a unified ecosystem.

Innovation today often **cuts across these domains**. For example, a single fintech might use **RBI-regulated APIs (UPI)**, **SEBI-registered wealth partners**, and **IRDAI-licensed insurance distributors** — yet no cross-domain policy exists to streamline operations or compliance.

The RBI's 2025 National Strategy for Financial Inclusion admits persistent issues of coordination between multiple regulators, especially in remote/rural markets. The RBI stressed the need for tighter inter-agency harmonisation in regulation and the standardisation of reporting across the banking, insurance, and securities sectors. The fragmentation across regulatory bodies often exposes consumers to **regulatory arbitrage and uneven protection**, as different entities interpret rules differently.

- 2. Jurisdictional gaps in fintech and digital finance:** When introduced in 2017, the P2P lending platforms were seen as a tool to democratise access to small-ticket credit — connecting retail investors directly with borrowers (often MSMEs or individuals excluded from formal banking). As of May 2025, India has 27 RBI-registered P2P NBFCs, with the potential to grow into an INR 10,000 crore-plus alternate credit segment. The RBI's regulations have since become highly restrictive, capping individual exposure at INR 50 lakh per investor, limiting borrower exposure to INR 10 lakh across platforms, and imposing bank-mediated escrow structures that reduce P2P's direct matching advantage. Overregulation in the name of consumer protection can undermine financial inclusion by pushing out responsible, small-scale innovators who serve credit-deficient populations.
- 3. Consumer protection mechanisms:** Although regulators, such as the RBI and SEBI, have made notable progress in strengthening consumer protection through initiatives like the RBI Ombudsman Scheme and SEBI's cyber resilience framework, significant challenges persist. These include fragmented regulatory oversight, overlapping jurisdictions, and a lack of structured coordination among regulatory bodies.

As financial services grow more digital and complex, consumers are increasingly exposed to risks such as mis-selling, opaque charges, delayed grievance resolution, data breaches, and bias in algorithmic decision-making. Moreover, many consumers remain unaware of their entitlements under various regulatory schemes, and although existing redressal mechanisms are improving, they continue to face delays and uneven enforcement.

4. The consumer complaints received under the RBI Ombudsman Scheme show a surge in complaints in FY 2023-24 compared to the previous two years' data.

Particulars	FY 2021-22		FY 2022-23		FY 2023-24	
	Number	% of total complaints	Number	% of total complaints	Number	% of total complaints
ORBIOs	3,04,496	72.81	2,34,690	33.36	2,93,924	31.46
CRPC	1,13,688	27.19	4,68,854	66.64	6,40,431	68.54
Total	4,18,184	100.00	7,03,544	100.00	9,34,355	100.00

[Source: RBI- Integrated Ombudsman Scheme, 2021 – Annual Report March 2024]

While the RBI, SEBI, and IRDAI have been progressively enhancing their consumer protection frameworks, there remains a pressing need for a more unified, collaborative, and technology-driven approach. Such a framework should ensure prompt grievance resolution, eliminate regulatory arbitrage, and provide strong safeguards for consumer interests across an increasingly interconnected landscape of financial products and delivery channels.

5. **Anti-money laundering (AML) and KYC framework:** Under India's AML and Know Your Customer framework, financial institutions are subject to multiple, often overlapping, guidelines issued by various regulatory bodies—including the Reserve Bank of India (RBI), the Financial Intelligence Unit – India (FIU-IND), the Securities and Exchange Board of India (SEBI), and others.

**This fragmented regulatory landscape creates several challenges, viz.**

- **Redundant requirements:** Financial institutions are often required to follow similar yet differently phrased regulations from multiple authorities, resulting in repetitive documentation and unnecessary procedural overhead.
- **Inconsistent Interpretations:** Varying definitions and thresholds for key compliance elements—such as customer due diligence, risk categorisation, and reporting timelines—lead to ambiguity and uneven application across institutions.
- **Operational burden:** The need to reconcile multiple regulatory frameworks significantly increases compliance costs and heightens the risk of unintentional violations, particularly for entities operating across diverse financial sectors.
- **Risk of non-compliance:** Without standardised guidelines, institutions may inadvertently meet the expectations of one regulator while falling short of another's, potentially incurring penalties or reputational harm despite bonafide efforts.

Penalties on banks/NBFCs for KYC and AML failures totaled over INR 53.85 lakh in June 2025 alone, highlighting persistent compliance weaknesses and a regulatory push for stricter processes. The updated KYC directions have resulted in mass re-KYC drives with over 10 lac account re-verifications in July 2025.

6. **Lack of flexibility:** India's current regulatory framework often applies uniform, stringent standards across both large financial institutions and smaller entities such as microfinance institutions and small NBFCs. While this consistency promotes systemic stability and consumer protection, it can inadvertently hinder flexibility and innovation among smaller players. The disproportionate compliance costs and operational demands limit their ability to serve niche or underserved markets effectively.

To address this, the RBI has introduced a phased and differentiated regulatory approach for NBFCs—classifying them based on size, risk profile, and business activities. This calibrated oversight aims to align

prudential norms with the operational realities of smaller institutions, enabling them to grow without being subject to the same level of regulatory intensity as larger banks or NBFCs.

However, further refinement is needed across the broader financial ecosystem. A more nuanced, risk-based regulatory regime—with clear thresholds and simplified compliance requirements—would support innovation, reduce regulatory arbitrage, and foster a more competitive and inclusive financial landscape.

## 7. IRDAI insurance penetration and oversight

1. **Complex regulatory environment:** The Insurance Regulatory and Development Authority of India (IRDAI) launched the 2025 Regulatory Sandbox Regulations to promote digital innovation in the sector. However, aligning with compliance requirements—particularly those related to KYC norms, exposure limits, and fraud prevention—continues to delay the rollout of new products, especially in remote and underserved regions.
2. **Fraud and data controls:** Starting April 2026, the IRDAI will implement the updated anti-fraud regulations requiring insurers to adopt board-approved fraud prevention strategies and enhance data-sharing protocols across the industry. While these measures strengthen consumer confidence and institutional transparency, they also introduce higher compliance costs that may limit insurers' ability to serve low-income and digitally less-proficient policyholders effectively.
3. **Senior citizens and health insurance:** To safeguard vulnerable populations, regulations now cap premium increases at 10% for individuals aged 60 and above, enforce stricter oversight on product discontinuations, and mandate tighter data governance. While these measures enhance consumer protection, they also raise operational and compliance burdens for insurers, which can inadvertently slow down innovation and the rollout of tailored health insurance products.

## B. Emerging policy priorities – India

1. **Consolidation of regulations:** The RBI is undertaking a major consolidation exercise as of October 2025, aimed at simplifying and streamlining the complex and fragmented regulatory framework. This initiative involves consolidating over 9,000 existing circulars and regulatory instructions issued over the decade into 238 master circulars. The primary goal is to enhance the accessibility and transparency of regulatory guidelines for banks, NBFCs, microfinance institutions, and other financial entities, thereby lowering compliance costs and easing regulatory pressures.

This consolidation effort also streamlines the regulatory landscape by eliminating outdated or overlapping directives through the formal withdrawal of redundant circulars. Through this initiative, the Reserve Bank of India (RBI) aims to enhance regulatory compliance and oversight, promote innovation and market competitiveness, and advance India's broader financial inclusion objectives by facilitating more efficient regulation and improved access to financial services.

2. **Integration of supervisory technology:** The RBI's initiative *DAKSH* exemplifies the modernisation of regulatory oversight through the adoption of supervisory technology. By enabling real-time communication between regulators and regulated entities, *DAKSH* facilitates targeted risk and compliance monitoring and shifts supervision from a reactive, retrospective model to a more proactive and predictive approach.

In addition, the RBI's Centralised Information Management System (CIMS) and Automated Data Flow (ADF) systems together form a robust digital backbone for regulatory oversight by the RBI. The CIMS enables advanced data analytics and centralised supervision, while ADF ensures seamless, automated submission of accurate financial data from banks, collectively driving a more transparent, efficient, and resilient financial ecosystem.

Looking ahead, expanding the use of supervisory tech across regulatory bodies will be vital for early risk detection, minimising manual errors, enhancing transparency, and strengthening the resilience of the financial ecosystem amid increasingly complex challenges.

3. **Digital public infrastructure expansion initiative:** Upgrading India's digital financial infrastructure through interoperable networks like the Open Network for Digital Commerce (ONDC) and the Open Credit Enablement Network (OCEN) to democratise access to credit and commerce. UPI facilitated over 50 billion

transactions worth INR 100 trillion in FY 2025. The ONDC pilot programmes are projected to increase microenterprise digital participation by 30% over the next two years.

4. Expansion of social security coverage through Direct Benefit Transfers (DBT) Initiative: The integrated use of Aadhaar-linked bank accounts for efficient delivery of subsidies, pensions, and insurance premiums, reducing leakages and boosting financial product uptake. Over 1.2 billion transactions executed via the DBT platforms in FY 2025.

### C. Learning and aligning with emerging global policies:

1. Open banking frameworks: In countries such as the UK and Australia, regulatory mandates surrounding open banking promote secure data exchange between traditional financial institutions and fintech companies, thereby fostering greater competition and financial inclusion.

India can strengthen its fintech landscape by broadening the scope of regulatory sandboxes and establishing more transparent guidelines for data portability. These steps would support the creation of accessible, cost-effective financial solutions tailored to the needs of underserved communities.

2. Proportionate regulation and streamlined due diligence: Adopting a proportionate, risk-based approach to customer due diligence—as advocated by the World Bank and practiced globally—can expand financial access while preserving security and systemic integrity.

India has an opportunity to enhance inclusion by tailoring its regulatory framework for low-risk segments, such as micro-entrepreneurs and small-value account holders, through simplified KYC and anti-money laundering protocols. This would help lower operational hurdles and make financial services more accessible to underserved populations.

3. Strengthened digital public infrastructure: Singapore's effective use of national digital IDs (SingPass) and unified payment systems highlights the transformative potential of well-integrated digital infrastructure.

India's Aadhaar and UPI platforms serve as critical building blocks; however, enhancing interoperability, particularly with services such as insurance and pension schemes, can significantly broaden their reach and practical value for citizens.

4. Reinforce consumer protection, with a focus on vulnerable populations: Regulatory bodies, such as the UK's Financial Conduct Authority (FCA) and its counterparts in Australia, have implemented targeted measures to safeguard vulnerable consumers, including specialised ombudsman services and customised financial education initiatives.

India can enhance its consumer protection framework by tightening regulations around predatory lending, strengthening grievance redressal systems, and expanding financial literacy efforts—especially for women, rural communities, and senior citizens.

5. Inclusion through government and employer collaboration: Singapore's strong performance in financial inclusion is driven by coordinated efforts between the government and employers to facilitate access to retirement savings and insurance.

India can build on its existing direct benefit transfer systems by forging deeper partnerships with employers—such as enabling automatic enrollment in financial products through workplace channels—to expand coverage and participation among underserved groups.

## D. Case studies

### Case Study 1 - United Kingdom – Open banking and consumer protection

#### Challenge:

- Fragmented financial services
- Lack of competition, and
- Limited access for marginalised groups due to opaque data and legacy banking systems.

#### Regulatory initiative:

The UK's Financial Conduct Authority (FCA) mandated open banking regulations in 2018, requiring major banks to share customer transaction data securely with regulated third parties. Complementary regulatory sandboxes allowed fintech innovators to develop inclusion-oriented products under supervised environments.

#### Impact:

- Increase in fintech entrants and innovative, low-cost, accessible financial products.
- Around 97% of adult bank account penetration, with notable improvements in digital access for underserved groups.
- The FCA's focused consumer protection strategies addressed vulnerable customers' needs and enhanced financial literacy campaigns.

#### Recommendations for India:

- Expand open banking through regulatory frameworks and data-sharing standards to empower fintech.
- Implement regulatory sandboxes to expedite innovation while safeguarding consumers.
- Strengthening consumer protection targeted at marginalised populations.

### Case Study 2 - Australia – Consumer data right and digital identity

#### Challenge:

- Persistent exclusion of indigenous populations and rural communities due to fragmented credit data and weak digital infrastructure.

#### Regulatory initiative:

- The Australian government and the Australian Prudential Regulation Authority (APRA) implemented the Consumer Data Right (CDR), setting robust data privacy and access rules enabling consumers to share financial data securely with service providers. The expansion of digital identification systems has enhanced remote account opening and credit evaluation.

#### Impact:

- 98% banking penetration with reduced regional and gender gaps.
- Enhanced competition among lenders led to more affordable and customised credit products for underserved segments.
- Significant increase in digital payment adoption and financial literacy.

### Recommendations for India:

- Accelerate integration of Aadhaar-linked digital ID and credit databases to lower access barriers.
- Implement data privacy rules that encourage consumer-controlled data sharing for credit evaluation and product personalisation.
- Focus on outreach and literacy campaigns among rural and vulnerable groups.

### Case Study 3 - United States – Community Reinvestment Act (CRA) and Digital Innovation

#### Challenge:

- Historical redlining and the lack of bank branches in low-income and minority communities that limit financial access.

#### Regulatory initiative:

- The US federal bank regulators enhance CRA implementation, requiring banks to meet the credit needs of all community segments, while also fostering fintech partnerships and supporting digital banking innovations. The Office of the Comptroller of the Currency (OCC) introduced charters for fintech banks and national digital ID pilots.

#### Impact:

- Over 95% adult account penetration, with ongoing targeted programmes reducing disparities.
- Growth of digital-only banks serving low-income populations with tailored financial products and credit-building services.
- Improved credit access for minority and rural borrowers documented in the CRA compliance reports.

### Recommendations for India:

- Incorporate targeted lending mandates for priority sectors and underserved geographies.
- Support digital-only banks and fintechs with regulatory clarity and policies that are innovative-friendly.
- Pilot national digital ID frameworks are integrated with credit bureaus and financial service providers.

### Case Study 4 - Singapore – Monetary Authority of Singapore Fintech and employer-based inclusion initiatives

#### Challenge:

- Need to integrate SMEs and low-income workers into formal financial systems while managing cyber risks.

#### Regulatory initiative:

- The Monetary Authority of Singapore (MAS) has established a comprehensive fintech regulatory framework that strikes a balance between innovation and security. Employer-led financial wellness programmes and mandates that link access to retirement savings have encouraged broad financial inclusion.

#### Impact:

- Near-universal bank accounts and digital payment adoption are 98%.
- Strong employer participation boosts retirement savings inclusion.
- Robust cybersecurity frameworks build consumer confidence in digital financial products.

### Recommendations for India:

- Develop balanced fintech regulations encouraging responsible innovation.
- Promote employer-facilitated financial access programmes, particularly for informal and microenterprises.
- Strengthening cybersecurity frameworks and financial consumer protection laws

## E. Conclusion:

India has made notable progress in advancing financial inclusion, with over 89% of adults expected to own bank accounts by 2024, and the Financial Inclusion Index is projected to climb to 67 in 2025. Despite these achievements, significant challenges persist—particularly the high rate of dormant accounts among rural and marginalised groups, pronounced gender gaps in financial access and credit utilisation, and a widening digital divide that hampers the adoption of digital financial services. Contributing factors include limited financial literacy, uneven regional development, elevated transaction costs in remote areas, fragmented regulatory oversight, and continued dependence on informal lending channels.

Access to credit for MSMEs remains constrained due to insufficient formal documentation, perceived risk profiles, and inadequate collateral, which further deepens exclusion and impedes equitable income distribution and job creation. To drive meaningful inclusion, India must pursue a holistic strategy: expand the reach of financial products through simplified onboarding and reduced costs; harness cutting-edge digital infrastructure—such as AI, to deliver secure, tailored financial solutions; reinforce data protection and cybersecurity to build user trust; and implement targeted policies that facilitate affordable credit for women, smallholder farmers, and microenterprises.

These efforts should be complemented by robust financial literacy initiatives and seamless integration of digital identity systems to tackle foundational barriers. By drawing inspiration from forward-looking regulatory frameworks in developed economies—such as open banking for data portability, national digital ID programmes for streamlined access, and employer-driven inclusion models—India can transition from basic account ownership to genuine financial empowerment and inclusive, sustainable growth.

Furthermore, enhancing regulatory supervisory capabilities through supervisory technology is essential for the future of effective financial regulation. These tools enable real-time, data-driven supervision that enhances risk detection, improves compliance precision, and bolsters fraud prevention—while streamlining manual, labour-intensive processes. By harnessing AI and automation, regulators can adopt a proactive stance, identifying emerging threats early and enhancing the resilience of the financial system. In addition, supervisory technology fosters greater transparency, lowers compliance costs, and upholds market integrity—key pillars in today’s dynamic and rapidly evolving financial environment.

## Commercialisation gaps

While India has made significant strides in financial inclusion — through initiatives such as Jan Dhan Yojana, UPI, and Aadhaar-enabled payment systems — a persistent set of commercialisation gaps continues to limit the complete democratisation of finance. These gaps affect the ability of start-ups, fintechs, and smaller financial intermediaries to scale and monetise effectively within government-driven or policy-heavy ecosystems.

### 1. Commercialisation gaps: Start-ups unable to monetise

- **Public good bias vs. commercial sustainability:** The government-driven digital infrastructure prioritises public benefit (e.g., UP/Aadhaar-enabled payment system/OCEN), leaving limited room for start-ups/fintechs to struggle for commercial margins. Zero margins due to regulatory fee caps (e.g., zero MDR on UPI transactions) limit profitability and innovation incentives, which have led to smaller players being unable to sustain operations in the absence of monetisation opportunities.
- **Dependence on subsidy-driven adoption:** A significant portion of user acquisition in these ecosystems is driven by government or state incentives, which become unsustainable once subsidies are withdrawn.
- **Limited access to data:** Fintechs faced longer onboarding and assessment times for loans and services, as users had to gather and share fragmented data, often through time-consuming paperwork and manual uploads.
- **Fragmented policy frameworks:** Start-ups face challenges in navigating overlapping regulations across the RBI, SEBI, and MeitY, which hampers the development of unified business models.

- **Barriers to innovative products:** Start-ups and MSMEs struggled to deliver or monetise products requiring real-time, holistic financial data, such as instant credit scoring, automated investment, and dynamic wealth management.
- **Stunted financial inclusion:** Underserved groups (MSMEs, low-income, gig workers) found it harder to access formal credit and digital services due to incomplete or inaccessible data footprints
- **Unclear or silent regulations:** Start-ups face uncertainty due to the absence of clear frameworks for emerging fintech models, such as digital lending and embedded finance. This discourages investment and innovation.
- **High R&D costs with no regulatory clarity:** Regulatory silence or delays in policy formulation increase the risk of sunk costs for startups investing in new technologies.
- **Fragmented oversight:** The overlapping jurisdictions between the RBI, SEBI, and MeitY create compliance complexity, making it challenging for start-ups to build unified, scalable models.
- **Cybersecurity and data protection:** India's fintech ecosystem faces critical cybersecurity and data protection challenges that hinder innovation and trust. The absence of unified, well-documented standards for data handling, breach reporting, and user consent creates operational uncertainty for start-ups. Fragmented data governance and a lack of interoperable protocols hinder onboarding and service delivery, particularly for underserved segments. Without secure, real-time access to comprehensive financial data, start-ups struggle to develop advanced products like instant credit scoring or automated wealth management, thereby limiting their ability to scale and serve the broader inclusion agenda.

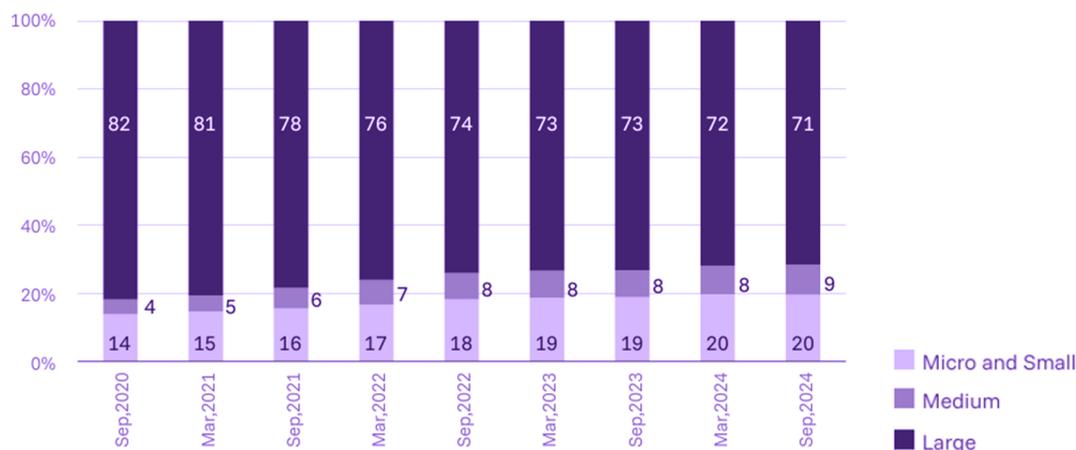
## 2. Absence of account aggregation mechanisms

The Account Aggregator (AA) ecosystem was officially launched in September 2021 as a secure, consent-based financial data-sharing system, regulated by the RBI, following the issuance of Master Directions in 2016.

Before AA, financial data was siloed across banks, NBFCs, insurers, and other providers. Consumers and fintechs lacked efficient, secure, and standardised ways to aggregate this information, severely hindering the development of digital lending, advisory, and personalised financial products. The RBI's AA framework is a positive step, enabling consent-based sharing of financial information, streamlining consumer experiences, and unlocking new opportunities for lending, wealth management, and targeted financial products. However, widespread adoption and integration remain a work in progress, with many institutions yet to be fully on board.

- **Limited financial data portability:** Despite progress with the AA framework, adoption remains uneven across banks, NBFCs, and mutual fund houses. This limits users' ability to share verified financial data for access to better credit or tailored products.
- **Incomplete ecosystem participation:** Despite the regulatory approval of multiple licensed account aggregators by the Reserve Bank of India (RBI), institutional participation remains incomplete.
- **Impact on MSMEs and Individuals:** The absence of seamless aggregation mechanisms has direct implications for credit access and financial inclusion, particularly among informal, micro, and first-time borrowers. Credit underwriting remains manual and document-heavy, as lenders must rely on bank statements, invoices, or self-declared financial information instead of aggregated digital data. Thin-file borrowers are unable to use their verified transactional or income data to build creditworthiness.

The data below shows the share of sectoral deployment of bank credit across the MSME sector, viz-a-vis large industries:



[Source: Niti Aayog Report 2025]

While there has been an improvement in access to credit for the MSME sector, there is an evident credit gap in the sector. MSMEs are often perceived as high-risk borrowers due to their small scale, business volatility, and vulnerability to economic shocks. This leads to higher interest rates or outright denial of credit by formal lenders.

- Lack of interoperability across sectors:** Inter-linkages between the AA framework and other critical data repositories, such as the GSTN, Income Tax department portals, and credit bureaus, are still in the early stages of development. This limits the creation of a 360-degree financial profile for borrowers, which is essential for cash-flow-based lending and risk-based pricing of credit products.

Until recently, the lack of a unified account aggregation mechanism hampered data accessibility and efficient credit risk assessment, especially for MSMEs and start-ups.

AA is recognised as a critical digital public infrastructure (DPI), enabling the secure, consent-based digital flow of user data. It is a foundational layer for instant loan approvals, customised credit solutions, and real-time advisory services, transforming both inclusion and revenue models.

This ecosystem unlocks new revenue streams for fintechs—such as data-driven lending, embedded finance, and digital marketplace opportunities—while also benefiting MSMEs and low-income users with faster access to formal credit.

### 3. Conclusion

India's digital financial ecosystem has achieved significant democratisation of access through the widespread adoption of UPI and progressive government initiatives. However, the current zero-fee transaction model and limited commercialisation opportunities constrain fintechs' ability to innovate and sustain revenue growth. Uneven digital adoption persists, with rural, low-income, and marginalised groups lagging behind, underscoring the need for targeted policies to enhance digital literacy, infrastructure, and regional inclusion. The absence of a fully integrated Account Aggregator (AA) mechanism continues to limit the transformative potential of India's digital financial infrastructure. While the AA framework—launched in 2021 and regulated by the RBI—offers a secure, consent-based system for sharing financial data, its adoption remains uneven across banks, NBFCs, and mutual fund houses. This fragmentation restricts the portability of financial data and hinders access to tailored credit and advisory services, particularly for MSMEs, informal sector participants, and thin-file borrowers. Without seamless aggregation, credit underwriting remains manual and document-heavy, and interoperability with key data repositories, such as GSTN and income tax portals, is still in its infancy.

To overcome these challenges, policymakers must mandate universal onboarding of financial institutions, strengthen technical linkages across data platforms, and promote awareness and capacity-building among users and lenders. Policymakers must strike a balance between affordability and sustainable commercialisation, ensuring robust competition, innovation, and equitable access, to realise India's vision of a truly inclusive digital finance ecosystem.

## 4. Education and awareness gaps

According to the most recent data<sup>1</sup> published by the Ministry of Statistics and Programme Implementation (MoSPI), Government of India, the national literacy rate stands at 85%. This figure represents significant progress in educational outreach and awareness nationwide. A snapshot of the official data is provided below for reference.

	Rural			Urban		
	Male	Female	Persons	Male	Female	Persons
1	2	3	4	5	6	7
2003	71	48	60	88	74	81
2004	72	50	61	88	75	82
2006	75	52	64	89	77	83
2007	76	54	65	89	77	84
2011	79	59	69	90	80	85

Source-NSSO, Ministry of Statistics & Programme Implementation, Govt of India.

Furthermore, the data have been disaggregated on a state-wise basis. The analysis reveals that all Indian states have achieved literacy rates exceeding 75%, underscoring a nationwide trend of improvement in basic education indicators. This uniformity across states suggests the effectiveness of various central and state-level educational initiatives implemented over recent years.

## EDUCATION

Table 29.5 - LITERACY RATE IN INDIA (Census)

State/Union	1991			2001			2011					
	Person	Male	Female	Person	Male	Female	Rural			Urban		
Territory	Person	Male	Female	Person	Male	Female	Male	Female	Person	Male	Female	Persons
1	2	3	4	5	6	7	8	9	10	11	12	13
All India	52	64	39	65	75	54	77	58	68	89	79	84
Andhra Pradesh	44	55	33	61	70	50	69	52	60	86	74	80
Arunachal Pradesh	42	52	30	54	64	44	67	52	60	88	77	83
Assam	53	62	43	63	71	55	75	63	69	92	85	89
Bihar	38	51	22	47	60	33	70	49	60	83	71	77
Chhatisgarh	43	58	28	65	77	52	77	55	66	91	77	84
Goa	76	84	67	82	88	75	92	82	87	93	87	90
Gujarat	61	73	49	69	80	58	82	61	72	91	81	86
Haryana	56	69	41	68	79	56	82	60	71	89	77	83

<sup>1</sup> Literacy Rate In India State wise [RGIE NSSO ] | Ministry of Statistics and Program Implementation | Government Of India

State/Union	1991			2001			2011					
							Rural			Urban		
	Person	Male	Female	Person	Male	Female	Male	Female	Person	Male	Female	Persons
1	2	3	4	5	6	7	8	9	10	11	12	13
Himachal Pradesh	64	75	52	77	85	67	89	75	82	93	88	91
Jammu & Kashmir	0	0	0	56	67	43	74	52	63	84	69	77
Jharkhand	41	56	26	54	67	39	73	49	61	88	76	82
Karnataka	56	67	44	67	76	57	78	60	69	90	81	86
Kerala	90	94	86	91	94	88	95	91	93	97	93	95
Madhya Pradesh	45	59	29	64	76	50	75	52	64	89	77	83
Maharashtra	65	77	52	77	86	67	85	69	77	92	85	89
Manipur	60	72	48	71	80	61	83	69	76	92	79	85
Meghalaya	49	53	45	63	65	60	72	68	70	93	89	91
Mizoram	82	86	79	89	91	87	88	80	84	98	97	98
Nagaland	62	68	55	67	71	62	79	72	75	92	87	90
Odisha	49	63	35	63	75	51	80	61	70	91	80	86
Punjab	59	66	50	70	75	63	77	66	71	87	79	83
Rajasthan	39	55	20	60	76	44	76	46	61	88	71	80
Sikkim	57	66	47	69	76	60	85	72	79	92	85	89
Tamil Nadu	63	74	51	74	82	64	82	65	74	92	82	87
Tripura	60	71	50	73	81	65	90	80	85	96	91	94
Uttar Pradesh	41	55	24	56	69	42	76	54	66	80	69	75
Uttaranchal	58	73	42	72	83	60	87	66	76	89	79	85
West Bengal	58	68	47	69	77	60	79	66	72	88	81	85
Union Territory:												
A. & N. Islands	73	79	66	81	86	75	89	80	85	93	87	90
Chandigarh	78	82	72	82	86	77	86	73	81	90	81	86
D. & N. Haveli	41	54	27	58	71	40	76	50	64	94	83	90
Daman and Diu	71	83	59	78	87	66	89	72	82	92	83	89
Delhi	75	82	67	82	87	75	89	73	82	91	81	86
Lakshadweep	82	90	73	87	93	81	95	89	92	96	88	92
Puducherry	75	84	66	81	89	74	87	73	80	93	84	89

Notes:

- Literacy rate is defined as the population of literates in the population aged 7 year and above.
- The 1991 data ( Excluding Jammu & Kashmir)and 2001data[Excludes figures of Paomata, Mao Maran and Pura sub-divisions of Senapati district of Manipur for 2001] refer to Census of India.

Although, as a developing nation, this percentage is continuously increasing, it is not the case with a major sub-component of literacy, i.e., “Financial literacy,” which is very important in today’s fast-paced and digital world. As per the latest research report<sup>2</sup> published by the “National Strategy for Financial Education” (2020-2025), only 27% of Indians are financially literate. This number is significantly lower compared to the basic education percentage.

Financial education and financial literacy, though closely interconnected, represent distinct concepts. Financial Literacy is the end goal that can be achieved through the systematic and practical delivery of financial education. Despite its importance, current government efforts in this domain remain limited, as evidenced by the relatively low percentage of financially literate individuals across India.

## Key challenges and suggestive measures:

Outlined below are the key challenges that continue to impede progress in improving financial literacy nationwide, along with strategic approaches to address them:

1. Minimal financial literacy efforts by the government
2. Lack of local language content
3. Need for a coordinated role from the Ministry of Education
4. Need for start-ups to step in with scalable education solutions

Each of these challenges is discussed in detail in the following sections, accompanied by conclusions and recommended measures to help overcome these barriers and foster greater financial awareness and literacy across India.

### 1. Minimal financial literacy efforts by the government

Financial literacy stands as one of the most vital components of economic empowerment within the Indian economy. Despite its significance, government-led efforts to raise awareness and educate citizens about the importance of financial literacy have been relatively limited. While several initiatives have been introduced—such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) and various social security schemes, including the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Atal Pension Yojana (APY), Pradhan Mantri Kisan Maan Dhan Yojana (PM-KMY), Pradhan Mantri Shram Yogi Maan Dhan Yojana (PM-SYM), and Pradhan Mantri Mudra Yojana (PMMY)—these programmes have encouraged individuals across both urban and rural areas to engage in savings, obtain insurance coverage, and plan for retirement.

However, despite these commendable efforts, financial literacy in India remains a challenge. Several key challenges contribute to this situation:

#### a) Limited nationwide reach of financial literacy programmes

Most financial literacy initiatives are concentrated in urban areas, leaving rural populations largely underserved. This urban-centric approach has resulted in a significant gap in the effectiveness and reach of these programmes. Given that a substantial portion of India’s population resides in semi-urban and rural regions where access to banking infrastructure and digital tools is often limited, there is a pressing need for targeted educational interventions to ensure these communities become financially aware and literate.

#### b) Insufficient budget allocation

Allocations for financial literacy initiatives in national budgets have been minimal, reflecting a perception of financial literacy as a non-core developmental priority. Funding is often directed toward short-term campaigns rather than long-term, sustainable programmes. This uneven and inadequate distribution of resources has contributed to persistently low levels of financial literacy, even in urban centres.

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<sup>2</sup> NATIONAL Strategy for financial education [2020-25]

### **c) Fragmented institutional roles**

India's financial education landscape is shaped by multiple regulatory bodies, including the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI), and the Pension Fund Regulatory and Development Authority (PFRDA). While each has undertaken various initiatives to promote financial awareness, these efforts are often carried out in isolation. The lack of coordination results in overlapping programmes, inefficient resource utilisation, and a diluted impact. Establishing a centralised authority to oversee, coordinate, and monitor these efforts could significantly enhance their effectiveness.

### **d) Lack of monitoring and evaluation**

A major shortcoming in existing financial literacy programmes is the absence of robust monitoring and feedback mechanisms. Many initiatives lack clearly defined outcome metrics or suffer from low participation in evaluation processes. This makes it difficult to assess their actual impact or to refine strategies for improved results. Without systematic evaluation, programmes risk becoming repetitive and ineffective over time.

### **e) Neglect of vulnerable groups**

Specific segments of the population, such as women, senior citizens, and informal sector workers, are often overlooked in financial literacy campaigns. These groups face unique financial challenges and are among the most in need of targeted education. Their exclusion from mainstream initiatives results in disparities in financial awareness and contributes to the country's overall low literacy levels.

## **2. Lack of local language content**

India, as a nation, comprises 28 States and 8 union territories, and is home to more than 22 officially recognized languages, along with hundreds of regional dialects. In the context of financial literacy, this linguistic diversity presents a significant challenge. There is a noticeable lack of financial education content available in local languages, which severely hampers comprehension and engagement, particularly among rural and tribal populations. Most ministries and regulatory bodies continue to disseminate financial information primarily in English or Hindi, creating a disparity for individuals who are more fluent in their native languages and may struggle to understand other languages.

This language barrier has a direct and substantial impact on financial literacy across India. The key issues contributing to this challenge are outlined below:

### **a) Dominance of English and Hindi**

Most financial education materials, including brochures, websites, and mobile applications, are produced in English or Hindi. This poses a significant obstacle for individuals who are more comfortable with regional languages. Furthermore, many people across different states have received their formal education in local languages. As a result, before they can engage with financial literature, they must first learn an unfamiliar language, adding an additional layer of complexity.

### **b) Low comprehension in Non-Hindi Regions**

States such as Tamil Nadu, Kerala, West Bengal, and Odisha exhibit lower engagement with financial services due to language barriers. This lack of accessible content leads to misinformation, mistrust, and underutilisation of formal financial systems. To foster greater participation from these regions, it is essential to develop and distribute financial literacy materials in local languages.

### **c) Digital platforms lack localization**

FinTech applications, banking platforms, and financial portals often do not offer support for regional languages, making it difficult for users to navigate and perform essential actions. In cases where local language support is available, the translations are often poorly executed, resulting in reduced clarity and effectiveness. This contributes to a lack of trust and discourages users from engaging with digital financial tools.

### **d) Cultural disconnect**

Financial concepts are frequently presented in formats that do not align with local cultural norms or economic realities. This disconnect diminishes the relevance and impact of financial education efforts. There is a pressing

need for initiatives that are culturally sensitive and tailored to reflect local values and practices, thereby enhancing their effectiveness and acceptance.

#### **e) Limited government and private sector initiatives**

Most available financial literacy content is not produced in vernacular languages. There is minimal involvement from both government bodies and private sector entities in creating localised content. Even when such content is developed, it often lacks a robust distribution network to reach remote and underserved populations, further limiting its impact. The Government of India has launched *Mission Bhashini*, under the National Language Technology Mission, a bold initiative aimed at addressing the gap in equitable access to digital governance, education, and commerce by leveraging AI-powered multilingual tools.

### **3. Need for a coordinated role from the Ministry of Education**

Among the various factors affecting financial literacy in India, the most significant and impactful is the absence of formal education integration within the financial education framework. The Ministry of Education has yet to assume a leadership role in embedding financial concepts into school and college curricula. As a result, generations of students and adults continue to lack the essential knowledge required to manage personal finances effectively.

Currently, there is no structured financial education material incorporated into mainstream academic syllabi. While students pursuing commerce-related subjects may be exposed to financial concepts, those from other academic streams are deprived mainly of this foundational knowledge. This gap has a profound impact on the country's overall financial literacy levels. The significant issues contributing to this challenge are outlined below:

#### **a) Absence in core curriculum**

Presently, the academic curricula at both school and college levels do not include formal financial education. Students complete their education without acquiring basic financial skills such as budgeting, saving, investing, and credit management. These fundamental concepts must be introduced early in the education system to build a strong foundation. Early exposure will lead to better understanding and more informed financial decision-making in adulthood.

#### **b) Lack of inter-ministerial collaboration**

The Ministry of Education, the Ministry of Finance, and various regulatory bodies, such as the RBI, SEBI, and IRDAI, operate in isolation. This fragmented approach results in the duplication of efforts and reduces the effectiveness of financial literacy programmes. There is a pressing need to establish a centralised and unified body that can coordinate with all relevant institutions to develop and disseminate comprehensive educational materials that are both impactful and efficient.

#### **c) Teacher training deficit**

A significant number of educators lack adequate training to teach financial concepts. There is a lack of standardised teaching resources, certification programmes, and incentives for schools to incorporate financial literacy modules. Teachers must be equipped with the necessary skills and tools to effectively deliver financial education before they are tasked with teaching it.

#### **d) Inconsistent state-level adoption**

While some states have initiated financial education programmes, their implementation is inconsistent and lacks uniformity. This inconsistency undermines the effectiveness of these efforts. To ensure equitable access and understanding, a standardised national approach to financial education must be adopted and enforced across all states.

#### **e) Missed opportunity in skill development programmes**

Vocational training and skill development initiatives frequently overlook financial literacy, despite its critical relevance to employability and entrepreneurship. Financial education should be an integral component of these programmes, as it equips individuals with the knowledge necessary to manage income, plan for the future, and make informed business decisions.

## 4. Need for start-ups to step in with scalable education solutions

India's start-up ecosystem, particularly within the edtech and fintech sectors, presents innovative and scalable solutions to address the country's financial literacy challenges. These start-ups possess the agility and technological prowess to deliver personalised, multilingual educational tools that can effectively reach underserved and remote populations. Notable initiatives include Varsity by Zerodha, the Tech Mahindra Foundation's Financial Literacy Course (offered through the Skill India Digital Hub), and Startup India's online courses for Entrepreneurs.

Following the COVID-19 pandemic, there has been a significant surge in technology-driven educational offerings from startups. These include certification-based courses that not only enhance learning but also accelerate the dissemination of targeted knowledge. Compared to traditional classroom-based instruction, these digital solutions offer greater accessibility and more engaging formats, making financial education more inclusive and impactful.

Indian start-ups have the potential and reach to deliver transformative solutions that can enhance financial literacy nationwide. Their contributions can be categorised into the following key areas:

### a) Agility and innovation

Start-ups are capable of quickly designing and refining financial education platforms tailored to specific demographics, such as rural youth, women entrepreneurs, and gig economy workers. These platforms present financial concepts in simplified formats, using relatable and practical examples to ensure better understanding among target audiences.

Importantly, start-ups serve as a platform for innovative distribution and scale of government policies and are crucial to the success of increasing financial inclusivity. Their ability to align with national missions and rapidly deploy solutions makes them indispensable partners in driving financial empowerment.

### b) Technology enables scale

Leveraging mobile applications, gamified learning environments, and AI-powered chatbots, start-ups can deliver financial education at scale even in regions with limited infrastructure. These tools enable the widespread dissemination of content and facilitate interactive learning experiences.

We need to leverage the assets of a large, young, digitally savvy, and mobile-connected population. This demographic advantage positions India uniquely to adopt and benefit from tech-enabled financial education at an unprecedented scale.

### c) Multilingual and personalised learning

Start-ups can develop content in regional languages and customise lessons to suit individual learning preferences. This approach helps overcome language barriers and enhances engagement, especially among populations in semi-urban, rural, and remote areas.

Additionally, MSME employers and blue-collar worker management platforms can be tapped as effective channels for imparting financial literacy alongside vocational training. These platforms are already engaged with large segments of the workforce and can serve as conduits for scalable, contextual education.

### d) Challenges in scaling

Despite their potential, start-ups face several obstacles, including regulatory constraints, restricted access to public datasets, and inadequate funding. These limitations often prevent promising solutions from progressing beyond pilot phases. Support from regulatory bodies and financial backing are essential to unlock their full potential.

### e) Need for ecosystem support

To thrive and scale effectively, start-ups require a supportive ecosystem. Public-private partnerships, government-sponsored incubators, and open data initiatives can provide the necessary infrastructure. Collaborations with educational institutions, local governments, and financial organisations can further amplify their impact at a national level.

## Conclusion: A call to action for strengthening financial literacy in India

The preceding analysis clearly underscores the urgent need for a comprehensive and coordinated effort by the Government of India, regulatory bodies, ministries, and private stakeholders to enhance financial literacy nationwide. Despite the existence of several schemes and initiatives, the overall impact remains limited due to fragmented execution, language barriers, and a lack of integration with formal education. To bridge these gaps and achieve meaningful progress, the following strategic actions are imperative:

### A. Strengthen government commitment and infrastructure

- **Increase budget allocation:** Financial literacy must be treated as a core developmental priority. Enhanced funding will enable long-term, nationwide programmes with deeper outreach and measurable outcomes.
- **Establish a centralised oversight body:** A unified authority should be created to coordinate efforts across ministries and regulators, monitor programme effectiveness, and ensure inclusive implementation, especially in rural and underserved regions.

### B. Promote multilingual and culturally relevant content

- **Expand language accessibility:** Financial education materials must be developed in regional languages beyond English and Hindi to ensure comprehension and engagement across India's diverse linguistic landscape.
- **Leverage local media and outreach:** Audio-visual formats, community-based programmes, and culturally aligned messaging can significantly improve participation and trust, particularly in tribal and rural areas.
- **Harness Bhashini for scalable language support:** The government's Bhashini platform can play a pivotal role in enabling multilingual financial education by providing AI-powered translation and speech tools across Indian languages. Start-ups and educators can integrate Bhashini's capabilities to deliver inclusive, voice-first learning experiences tailored to local linguistic contexts.

### C. Integrate financial literacy into formal education

- **Curriculum inclusion:** Financial concepts, such as budgeting, saving, investing, and credit management, should be embedded in school and college syllabi across all academic streams—not just commerce.
- **Teacher training and standardisation:** Educators must be equipped with certified training and standardised teaching materials to deliver financial education effectively.
- **Nationwide consistency:** A uniform strategy across states will ensure equitable access and eliminate disparities in financial knowledge.

### D. Empower start-ups to scale innovation

- **Support tech-driven solutions:** Edtech and fintech start-ups offer scalable, personalised, and multilingual platforms that can reach remote populations with ease.
- **Address scaling challenges:** Regulatory support, funding access, and open data initiatives are essential to help start-ups move beyond pilot stages and achieve national impact.
- **Foster public-private collaboration:** Partnerships with schools, local governments, and financial institutions can amplify the reach and effectiveness of start-up-led financial literacy programmes.

In summary, India's path to financial empowerment hinges on a multi-stakeholder approach that combines policy reform, educational integration, technological innovation, and cultural inclusivity. By taking decisive action across these fronts, India can build a financially literate population capable of making informed decisions and contributing meaningfully to the nation's economic growth.

## Coordination gap

India's financial sector is an evolving sector - one that has shown growth in complexity, depth, and reach over the past decades. Yet, fragmented regulation and limited coordination among multiple financial regulators lie beneath this dynamism. The RBI, SEBI, IRDAI, and Pension Fund Regulatory and Development Authority (PFRDA) each govern their respective domains. However, as financial products become hybrid — with fintechs blending payments, lending, investments, and insurance — the need for regulatory certainty also increases. The absence of continuous, structured dialogue by the regulators creates uncertainty, inhibits innovation, and often results in missed opportunities.

### The growing financial ecosystem and the coordination gap

India's financial landscape today has an innovation ecosystem. Fintech start-ups are redefining access to credit, small finance banks are reaching the unreached, and digital platforms are transforming how Indians save, invest, and insure. The “India digital public infrastructure” — Aadhaar, UPI, and digital KYC has democratised access in unprecedented ways. Yet, even as digital innovation races ahead, policy coordination lags behind.

The Financial Stability and Development Council (FSDC), established in 2010, was envisioned as the body responsible for promoting financial stability and fostering inter-regulatory dialogue. However, as a non-statutory entity, its decisions remain advisory and not binding. The Council often acts reactively, convening after crises rather than anticipating them. Without legal authority or a dedicated budget, its influence is limited. The lack of a strong coordinating mechanism has led regulators to work in silos.

Policy inconsistencies lead to regulatory arbitrage, compliance confusion, and delayed responses to emerging risks are the consequences. The IL&FS crisis, the lack of a proper regulated cryptocurrency framework, and even procedural issues such as ownership verification in gold loans are symptoms of this larger structural gap.

### Case-based analysis of challenges in regulatory engagement

- **The gold loan ownership Dilemma**

Consider the RBI's guidelines on gold-backed lending. Gold, in India, is not just an ordinary asset, but also a family heirloom and a store of household wealth, particularly in rural India. Yet, the RBI's regulations requiring borrowers to prove ownership of pledged gold, while logical in theory, become impractical in a country like India, where gold is often gifted or inherited without documentation.

For many rural families, gold loans serve as emergency credit options, enabling them to fund basic needs like education, healthcare, or agriculture. But the inability to prove ownership has forced banks to reject genuine applications. The result is that the capital lies idle, other moneylenders fill the gap, and the cycle of financial exclusion continues.

This is a classic case where a lack of regulator's dialogue and contextual understanding leads to unintended exclusion. If the RBI engages closely with banks, microfinance institutions, and rural credit cooperatives before issuing such a regulation, a suitable solution can be designed that protects lenders while empowering borrowers.

- **The Cryptocurrency and stablecoin conundrum**

The next critical dimension of finance for digital assets has exposed another regulatory vacuum. India has neither banned nor formally regulated cryptocurrencies. The absence of a clear framework has led to policy uncertainty. Organisations/Entrepreneurs capable of building world-class platforms have relocated to friendlier jurisdictions, such as Dubai or Singapore. Here, the country is losing not just innovation but also billions in capital.

The rise of stablecoins, such as Tether (USDT) and USD Coin (USDC), offers an exemplary illustration. Stablecoins are cryptocurrencies that are pegged to traditional assets, such as fiat currencies or commodities, and are designed to eliminate volatility. Globally, they are being utilised to reduce cross-border payment costs, facilitate instant remittances, and expand access to finance.

According to an article by decrypt, Aishwarya Gupta from Polygon says India could have potentially saved USD billion (INR 5.7 lakh crores) annually by adopting stablecoins for cross-border payments. Yet, the

absence of regulation has pushed this opportunity out of reach. Multiple agencies have jurisdictional claims, but none assume ownership.

This “coordination vacuum” not only deters investment but also leads to talent shift. Indian developers and blockchain innovators are migrating to ecosystems where certainty exists. Countries such as the U.S., Singapore, and Hong Kong have already established licensing and audit frameworks for stablecoins, ensuring both consumer protection and innovation. India’s hesitation, by contrast, costs it both credibility and also leads to erosion in capital.

- **The IL&FS crisis: A case of Coordination Failure**

The 2018 collapse of Infrastructure Leasing & Financial Services (IL&FS) was a classic case of regulatory fragmentation. IL&FS operated across multiple financial domains and therefore fell under the overlapping oversight of the RBI, SEBI, and IRDAI.

While RBI monitored its financial stability parameters, governance oversight was done by the Ministry of Corporate Affairs (MCA). This jurisdictional ambiguity allowed IL&FS to exploit gaps between regulators, functioning like a bank without being subjected to banking-level prudential norms.

The IL&FS debacle exposed not just corporate mismanagement but a systemic defect: the absence of a unified regulatory framework. If a formal coordination platform had existed, the early red flags identified could have been addressed. Instead, isolated oversight and fragmented accountability allowed public trust to erode and destabilize markets.

The IL&FS crisis of 2018 served as a sign to get up for India's financial regulatory architecture. While the crisis exposed fragmented oversight and regulatory arbitrage, it also led the RBI to strengthen its supervisory mechanisms. Although RBS was originally introduced, its enhancement was significantly strengthened post-IL&FS. RBI merged its supervisory departments for banks, NBFCs, and cooperative banks to enable unified supervision. The focus shifted from entity-based compliance checks to activity-based risk assessments, facilitated by enhanced data analytics and early warning systems.

Furthermore, as part of increased oversight, the RBI introduced the scale-based regulation framework for NBFCs. This framework categorises NBFCs into four layers - Base, middle, upper, and top, based on their size, complexity, and systemic importance. Each layer is subject to stringent governance, disclosure requirements, and risk management norms as the layer progresses.

Other regulators, such as SEBI, IRDAI, and PFRDA, could reference the RBI’s proactive approach. A coordinated effort across regulators could help prevent systemic failures in the future.

- **Parallel economies and the coordination Void**

The story does not end with formal financial institutions. In many regions, hawala networks continue to survive, leading to unrecorded money transfers and laundering illegal funds. The persistence of such systems, despite decades of reform, reflects a lack of integrated fraud detection and information-sharing mechanisms. Without cross-sectoral coordination between the RBI, the Financial Intelligence Unit (FIU-IND), and investigative agencies, the source of these capital flows remains undetected, undermining the integrity of India’s financial ecosystem.

Such gaps erode trust. When legitimate players face compliance burdens while illegitimate networks go unnoticed, the credibility of the formal system weakens.

#### **Sandbox ecosystem: Promise and Fragmentation**

Regulatory sandboxes were introduced precisely to bridge the gap between innovation and regulation. They allow startups and other organizations to test new products under controlled environments, temporarily exempt from certain regulations. The RBI launched its sandbox in 2019, followed by the SEBI, IRDAI, and the International Financial Services Centres Authority (IFSCA).

However, the sandbox ecosystem shows India’s broader regulatory fragmentation. Each regulator maintains its own rules, cohorts, and testing criteria. The RBI’s cohorts on retail payments and MSME lending have shown promise, but cross-sectoral products have no unified testing ground.

Globally, many countries have created inter-regulatory sandboxes, allowing fintechs to test cross-domain products under a single umbrella. India's lack of such integration has limited its ability to capitalise on its potential. A coordinated sandbox authority could enable thematic innovation in a lot of areas, like climate finance, inclusive credit, harmonising regulation with innovation.

To enhance formal oversight, India needs stronger Self-Regulatory Organisation (SROs) that can set standards, monitor compliance, and support innovation. In 2024, the RBI released an Omnibus Framework for SROs, highlighting their role in shaping responsible financial ecosystems.

SROs can also play a crucial role in building the Digital Public Infrastructure (DPI) at the industry level, especially for emerging sectors such as fintech, Account Aggregators, digital lending, and NBFCs.

**At present, the key SROs in India include:**

- Association of Mutual Funds in India (AMFI) – that sets standards and monitors compliance of the mutual fund companies to protect investors' interest;
- Microfinance Institutions Network (MFIN) - that is a dedicated SRO for NBFC-MFIs, setting industry codes of conduct, empowering consumer protection;
- Fintech Association for Consumer Empowerment (FACE) – that is focused on the fintech sector facilitating regulatory compliance, addressing emerging risks, and fostering innovation.
- Finance Industry Development Council (FIDC) – that represents the NBFCs in India, strengthening oversight of NBFCs, enabling industry standards, transparency, and financial inclusion.

While the recognition of SROs like AMFI, FACE, and FIDC offers a model for other emerging sectors, similar SROs could set standards for custody, monitoring, compliance, and investor protection in crypto and virtual assets, digital lending, account aggregators, etc.

This vision can be supported by leveraging the Interoperable Regulatory Sandbox, where SROs can co-create solutions that are scalable, inclusive, and compliant.

## A way forward: The regulator–Industry Coordination Forum

To address these structural inefficiencies, a Financial Services Industry–Regulator Coordination Forum could serve as the institutional bridge. The concept is simply a structured space where regulators, policymakers, financial institutions, fintech innovators, and academic experts collaborate regularly to co-create solutions rather than react to crises.

### Key objectives of the Forum

- Prevent **capital erosion**: Early dialogue on compliance challenges would enable timely corrections before crises occur. Regulators and industry could jointly identify emerging risks and implement preventive measures.
- Bridge **regulatory islands**: The forum could harmonise oversight across the financial sector, ensuring hybrid entities like fintech-NBFCs do not fall through jurisdictional gaps.
- Capture **opportunities**: Regular communication with start-ups can help regulators understand new technologies, from decentralised finance (DeFi) to tokenisation, enabling progressive frameworks.
- Democratise **financial access**: Smaller players like microfinance institutions, small NBFCs, and rural fintechs often lack representation in policymaking. This forum could give them a voice, aligning inclusion goals with regulatory alignment.
- Foster **evidence-based policymaking**: Partnerships with academic and research institutions would bring data-driven insights into decision-making, ensuring policy evolves with evidence rather than historical reactions.

## Structure and functioning

### Governance framework

- **Steering committee:** Comprising senior representatives from RBI, SEBI, IRDAI, PFRDA, etc
- **Advisory council:** Includes academic experts, and fintech leaders to ensure diverse perspectives.
- **Rotating chairmanship:** The chair can be rotated on a defined frequency among regulators to ensure neutrality and shared ownership

### Operational units

Secretariats by theme:

- **Innovation:** Focus on emerging technologies, regulatory sandboxes, and start-up engagement.
- **Systemic risk and stability:** Monitor macroprudential risk and cross-sector vulnerabilities.
- **Market development and inclusion:** Promote access to underserved segments and sustainable finance
- Each secretariat would be staffed with policy analysts, regulatory liaisons, industry fellows (on secondment), and data scientists (for evidence-based insights).

### Engagement mechanisms

- Quarterly **roundtables:** Thematic discussions on current challenges (e.g., digital lending norms, AI in credit scoring).
- Working **groups:** Tasked with drafting joint policy briefs, regulatory harmonisation proposals, and sandbox evaluations.
- Annual **summits:** Showcase results, publish white papers, and set the agenda for the coming year.

### Transparency and accountability

- Public **reports:** Summaries of discussions, recommendations, and progress updates published online.
- Feedback mechanism: Open channels for industry and civil society to submit inputs and concerns.
- Impact **metrics:** Track regulatory responsiveness, innovation adoption, and inclusion outcomes.

### Technology infrastructure

- Digital **collaboration platform:** Secure portal for knowledge sharing, virtual meetings, and stakeholder engagement.
- Regulatory **dashboard:** Real-time data on compliance trends, innovation pilots, and risk indicators.

## Conclusion: Coordination as the key to financial inclusion

India's journey toward financial inclusion is not merely about expanding access; rather, it's also about creating an ecosystem that is responsive and inclusive. The absence of coordination has already cost the country: gold loans lost in paperwork, organisations migrating overseas, opportunities like stablecoins slipping away, and crises eroding public trust.

In a rapidly digitising world, finance cannot function in fragmentation. The future of inclusive finance lies in collaboration where regulators act as facilitators, innovators operate responsibly, and both share a common vision of national financial growth.

The proposed Regulator–Industry Coordination Forum represents not just another institution but a philosophical shift from regulation to proactive partnership. It can be scoped to transition from fragmented oversight to a unified vision, from missed opportunities to shared prosperity. India is on the verge of a financial revolution. Coordination will determine whether that revolution leads to inclusion.



# Key takeaways and recommendations



## Strengthen regulatory coordination

- Create a unified Regulatory Coordination Forum that brings together the RBI, SEBI, IRDAI, PFRDA, and MeitY to streamline policy development, reduce overlaps, and enable faster decision-making.
- Standardise digital KYC, customer onboarding norms, and data-sharing protocols across regulators to reduce friction for providers and customers.
- Develop a common regulatory technology (regtech) framework to support regulatory reporting, risk-based supervision, and greater interoperability across financial institutions.
- Prioritise the adoption and integration of advanced supervisory technology across the financial regulatory ecosystem to enhance real-time oversight and support a sound, well-governed financial framework

## Reduce Regulatory and Compliance Burden

- Simplify compliance requirements for small and regional financial institutions, enabling easier market entry and expansion of services.
- Introduce proportionate regulation for low-risk fintech and MSMEs to enable innovation without excessive compliance. Bolster the role of SROs to enhance oversight, foster innovation, and build sector-wise trust by establishing industry-wide standards and issuing consistent recommendations.
- Rationalise documentation and grievance redress requirements. Co-founded by the government, NPCI, and private PSPs, a UPI sustainability fund was established to strengthen capacity, security, network resilience, and long-term sustainability.

## Leverage and scale existing digital public infrastructure

- Expand the use of UPI, Aadhaar-enabled services, Account Aggregator (AA) and ONDC to deepen access for underserved segments.
- Enable digital-first public service delivery, including subsidies, pensions, and welfare payments through DPDI rails.
- Promote cross-sectoral partnerships among banks, telcos, fintechs, and state governments to expand the adoption of Aadhaar-based authentication and digital payments.
- Establish a centralised oversight body to coordinate efforts across ministries and regulators to ensure inclusive and effective implementation, especially in rural areas

## Encourage digital innovation and start-up growth

- Support fintech sandboxes and innovation labs with simplified entry rules and time-bound approvals for testing new models. Support **Tech-Driven Solutions: Encourage EdTech and FinTech startups to deliver scalable, personalised, and multilingual financial education.**
- Expand blended financing and government-backed innovation funds to help early-stage start-ups scale solutions for MSME credit, agri-finance, and insurance inclusion.
- Strengthen digital infrastructure in rural areas – including connectivity, cloud access, and cybersecurity- to enable the broader deployment of tech-driven solutions.

## Improve financial literacy and consumer protection

- Roll out large-scale digital and multimedia financial literacy campaigns, using regional languages, community centres, and local influencers. Use culturally aligned messaging, audio-visual formats, and community-based outreach to improve engagement
- Embed financial literacy in school curricula, focusing on savings, digital payments, insurance, and responsible borrowing
- Enhance consumer protection mechanisms by implementing transparent disclosures, simplified product information, and robust grievance redressal channels. Establish a Unified Financial Ombudsman portal, integrating all regulator grievance mechanisms that will enhance accessibility and consistency
- Leverage global best practices: Drawing on international models, India's financial ecosystem can strengthen the inclusion architecture by implementing Open Banking standards (as seen in the UK model) and evaluating the adoption of employer-based financial inclusion (as seen in the Singapore model) to extend insurance and pension products to low-income and informal sector workers.



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Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society through advisory and consultative processes.

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