



Analysing the present status of financial inclusion in Bihar

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Abstract

Financial inclusion, defined as the availability of banking services at an affordable cost for disadvantaged and low-income groups, is regarded as an essential component of efforts to foster inclusive economic growth in developing countries. It is widely believed that extending access to institutional financial services to deprived and unbanked women can help address their exclusion and promote empowerment. Financial inclusion has been regarded by successive governments as a top priority, making the assessment of its progress a crucial task. In Bihar, financial inclusion also strengthens livelihood security by facilitating access to institutional credit, insurance, and government welfare transfers. The social inclusion theory emphasizes that financial access empowers disadvantaged groups, especially women, by increasing their economic participation and decision-making power. Overall, financial inclusion acts as a catalyst for sustainable development by enhancing financial capability, promoting self-employment, and fostering long-term economic resilience in Bihar. In this present paper a modest attempt has been made to depict the present status of financial inclusion in Bihar.

Keywords: Digital financial services, financial inclusion, indebtedness, Pradhan Mantri Jan Dhan Yojana, self-help groups

Introduction

Financial inclusion—defined as the availability and usage of affordable financial services by underprivileged segments—is a critical driver for socioeconomic development. In Bihar, historically low inclusion has limited rural access to savings, credit, and insurance, perpetuating poverty and livelihood insecurity. Post-2014, the PMJDY has substantially expanded banking reach across Bihar, integrating rural households into the formal financial system and enabling direct benefit transfers, subsidy reception, and savings mobilization. Status of Financial Inclusion in Bihar the status of financial inclusion in Bihar has improved significantly over the past decade due to focused government and institutional interventions. Schemes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) have expanded basic banking access, resulting in a substantial increase in bank account ownership, especially among rural and low-income households. Most districts in Bihar now report a high proportion of households with at least one formal bank account, enabling access to savings, direct benefit transfers, and insurance schemes. Institutions like NABARD have played a vital role by supporting financial literacy programs, self-help groups (SHGs), and rural credit delivery. Financial literacy campaigns covering thousands of panchayats have enhanced awareness and usage of banking services. However, challenges persist, including dormant accounts, limited access to institutional credit, digital illiteracy, and infrastructure gaps in remote areas. Overall, while access to financial services has expanded, deeper usage and quality of inclusion remain key priorities for Bihar's sustainable development.

Financial inclusion plays a crucial theoretical role in promoting inclusive economic development, particularly in a socio-economically backward state like Bihar. From a development economics perspective, financial inclusion reduces structural inequality by integrating marginalized populations into the formal financial system. Access to banking services enables households to save securely,

manage risks, and smooth consumption, which is essential for poverty reduction. The theory of financial intermediation suggests that formal financial access lowers dependence on informal moneylenders, thereby reducing exploitation and enhancing income stability.

Review of Literature

The term, financial inclusion broadly means the provision of affordable financial services, *viz.*, access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to the weaker/deprived sections that had been hitherto excluded. Report of the Committee on Financial Inclusion defines financial inclusion as “the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost” (Rangarajan, 2008). Similarly, the Report of Task Force defines financial inclusion as the access to appropriate financial services for every person and enabling them to:

1. Manage their money on day-to-day basis, efficiently, securely and confidently;
2. Plan for future and cope with financial pressure in short term with the help of long-term funds; and
3. Deal efficiently with financial distress like long term sickness, unemployment, or family breakdown by availing money management advice and insurance (Treasury, 2006).

However, financial inclusion is not limited to opening of bank account but includes banking education to make use of banking facilities and products to better manage their money and capabilities. Explanation of financial inclusion by the Reserve Bank of India (RBI) is not restricted merely to opening of bank accounts; it includes provision of all financial services like credit, remittance and overdraft facilities for the rural poor also.

A large extent of literature has identified the relationship between economic and financial development. It has been argued that finance is a strong contributor of growth (Miller, 1998) while on the other hand growth leads to financial development (Robinson, 1952). Financial development contributes to growth by providing information about potential projects, monitoring the implementation of investment, enhancing risk management and diversification, pooling saving and facilitating the exchange of goods and services (Levine, 2005). It has been observed that financial development and financial deepening on economic growth more so in poor economies or in economies with unequal income distributions (Galor and Zeira, 1993; Benabou, 1996). The concern is more important for a poor economy like India which is underdeveloped in terms of financial resource and other related indicators, e.g. capital and assets. In a developing country like India, a distinct transformation of far reaching significance occurred in the financial sector as it assumed a broad mass and emerged as an important instrument for socio-economic changes. A number of revolutions have been made in this regard such as expansion of bank branches, credit-deposit facility, loan facility, etc. However, the country has not been able to reduce poverty and inequality due to poor performance of services and overall poor development of financial sector. Evidences suggest that financial crisis severely affect the poorest and most vulnerable groups, and usually result in a major reduction in growth and an increase in poverty levels (World Bank, 2001). Due to low financial inclusion, excluded people are losing opportunities to grow and are virtually cut-off from the mainstream society. They lose chances to save part of their livelihood earning for the rainy days and also to borrow. People with no bank accounts do not go to banks normally and as such they are deprived of the basic financially auxiliary services like demand draft, insurance cover and other emergency financial service as personal loans and security of costly commodities. It is generally believed that by providing access of institutional financial services to the deprived and excluded section a nation could free it from the clutches of local moneylenders and help them to undertake economic activities and thereby enable them to take advantage of growth opportunities (Pandey and Raman, 2012).

Kaur & Singh (2015) attempts to study the recent trends in Financial Inclusion in India with special reference to Pradhan Mantri Jan Dhan Yojana (PMJDY), highlighted action plans and its key areas. Study revealed that till (31-12-2014) 819.09 lakhs account has been opened which comprises 496.97 lakhs from the rural and 332.13 lakhs from urban areas of country. Study also suggested strategies that opening bank account procedure should be simplified to ensure maximum Financial Inclusion for the underprivileged and unbanked areas. The widely acknowledged & successful launch of the PMJDY scheme also strengthens the resolves that, when coordination, dedication, opportunism, commitment, formalization, dependence, trust, satisfaction, cooperation and continuity is provided by all the constituents and stakeholders, a framework of construct is created which acts as a dominant force for accomplishment of the mission.

Verma & Garg (2016) tried to find out the level of influence of Pradhan Mantri Jan Dhan Yojana by analysing the effectiveness of the financial literacy program and awareness towards the scheme. The study was carried on the

workers of Central University of Rajasthan and villagers of Bandra Sindri village in Ajmer district of Rajasthan. The primary data was collected in the form of discussions held with respondents for the period of 2015. Findings of the study suggested that there is a long way, which needs to be covered to mitigate financial untouchability in actual sense. The causes and consequences of Financial Exclusion have become a policy concern in both developing and developed nation in recent years. In rural regions, accessibility of financial services is the main issue (Maity and Sahu, 2017). Ghosh and Parida (2020) concluded that the banking system has played a crucial role in the upliftment of our country, especially in the recent decades. Access to financial resources is one of the foremost requirements for the citizens of a nation to grow. Accordingly, considering the strong linkage between financial inclusion and the payment system, RBI has taken several steps. But there is a lot need to be done to feel the true meaning of financial inclusion, which is beyond deposits and remittances.

It is reasonably evident from the above study that financial inclusion is an important concept in the Indian financial system. No broad study has been done on financial inclusion in Bihar and there is lack of solid theoretical base related to financial inclusion. Therefore, this study is an attempt to investigate the status of financial inclusion especially in Bihar.

Majority of the people in India lives in rural parts of the country. Hence, development of rural India is a key to the economic growth of the country. Financial inclusion or inclusive financing is the delivery of financial services at reasonable costs to sections of underprivileged and low-income segments of society. In India, financial inclusion first made its mark in 2005, in a small village of Mangalam in Puducherry, where all households were provided banking facilities.

Financial inclusion in India has not equal spreading in all states.

- High Financial Inclusion states: Kerala, Maharashtra and Karnataka.
- Medium Financial Inclusion states: Tamil Nadu, Punjab, Andhra Pradesh, Sikkim, Himachal Pradesh and Haryana.
- Low Financial Inclusion states: West Bengal, Gujrat, Uttar Pradesh, Meghalaya, Tripura, Odessa, Rajasthan, Arunachal Pradesh, Mizoram, Madhya Pradesh, Bihar, Assam, Nagaland and Manipur.

Status of Financial Inclusion in India

- More than 310 million people were covered in this formal banking system.
- More than 25000 new branches were opened.
- States like Andhra Pradesh, Karnataka, Tamil Nadu, and Telangana. etc., benefited more by establishing more banking branches in rural areas which were ignored earlier.
- Only 3% share was covered in north-eastern states in this financial inclusion.
- More than 45K new ATMs have been installed in needy areas to serve the needs of people.

Status of Financial Inclusion in Bihar

Bihar has made significant progress in financial inclusion over the last decade, mainly through government initiatives, expansion of banking infrastructure, and women's self-help

groups (SHGs). The state now has more than 5 crore bank accounts under the Pradhan Mantri Jan Dhan Yojana (PMJDY), with a large majority located in rural areas. Approximately 78% of rural women in Bihar have bank accounts, reflecting substantial growth in financial access. Recent data indicate that Bihar has over 6.8 crore PMJDY beneficiaries, making it one of the leading states in terms of financial inclusion coverage.

Drivers of Financial Inclusion

Pradhan Mantri Jan Dhan Yojana (PMJDY)

PMJDY has been the most important initiative for bringing unbanked households into the formal banking system. The scheme provides:

- Zero-balance bank accounts
- RuPay debit cards
- Insurance coverage
- Overdraft facilities
- Direct Benefit Transfer (DBT) access

The scheme has significantly expanded banking access among poor and rural households in Bihar.

Self-Help Groups (SHGs) and JEEViKA

Bihar's JEEViKA program has mobilized millions of rural women into SHGs. These groups encourage savings, provide access to credit, and promote entrepreneurship. Bihar has one of the largest SHG networks in India, with over one crore women connected through SHGs.

Expansion of Banking Infrastructure

Bank branches, Customer Service Points (CSPs), Business Correspondents (Bank Mitras), ATMs, and digital payment facilities have expanded rapidly. The number of CSPs increased from about 31,000 in 2021 to over 53,000 in 2025, improving last-mile banking access.

Digital Financial Services

The growth of:

- UPI payments
- Mobile banking
- Aadhaar-enabled payment systems
- Direct Benefit Transfers

has increased financial participation even in remote rural areas.

Benefits of Financial Inclusion in Bihar

- Reduction in dependence on informal moneylenders
- Increased household savings
- Better access to government welfare schemes
- Women's economic empowerment
- Promotion of entrepreneurship and self-employment
- Growth of digital transactions and financial literacy

Financial inclusion has particularly improved women's participation in financial decision-making through SHGs and individual bank accounts.

Challenges

Despite notable progress, several challenges remain:

1. Low Financial Literacy

- Many account holders are unaware of insurance, pension, and overdraft facilities.

2. Limited Access to Formal Credit

- Many households still depend on SHGs, microfinance institutions, or informal lenders for loans.

3. Regional Disparities

- Financial inclusion levels vary significantly across districts. Some districts remain underserved.

4. Digital Divide

- Lack of internet connectivity and digital skills restricts effective use of digital banking in some rural areas.

5. Over-Indebtedness

- In some regions, excessive borrowing from multiple microfinance institutions has created debt burdens for poor households, particularly women borrowers.

Suggestions for Improvement

- Strengthen financial literacy programs.
- Expand digital infrastructure in rural areas.
- Increase access to affordable formal credit.
- Improve monitoring of microfinance lending practices.
- Promote women-led entrepreneurship through SHGs.
- Enhance banking services in backward districts.

Summing-up

It is revealed from the study that still a large number of the people are unknown about PMJDY, a significant no of people have opened their account after PMJDY but a still large section of population do not have access of banking services due to less number of bank branches & ATM outlets in rural area, level of awareness is also low in rural area, mostly people only aware about only zero balance required for the opening of PMJDY account and know PMJDY account from the name of Modi account. A large no of accounts is inactive and it is also concluded from the study that living standard of majority of people living in area is good due to farming & daily wages activities Frequency of usage of the Rupay Debit card & frequency of transaction in PMJDY is average but frequency of accidental insurance, overdraft facility is very low. Which reduce the growth and success rate of PMJDY? However, majority of the respondents face barrier due to financial awareness and financial illiteracy. It also derived from the study that majority of the people have bank account but the level of financial awareness and financial literacy is low which is because of lack of govt efforts, poor cooperation of bank mitra's, financial awareness & financial literacy. Rules for claim the overdraft and insurance benefits should be simplified so that people get the benefits in easy and efficient way. The important fact depicts from the study that a large no of respondents has wrong assumption that Modi government will depositing some money in their PMJDY accounts. To achieve the goal of 100% financial inclusion combined efforts of all government agencies and financial institution is required in rural and remote areas and govt. should connect PMJDY scheme to that kind of scheme which generate employment and provide a valid source of earning.

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