

OPEN ACCESS

Volume: 5

Issue: 4

Month: October

Year: 2026

ISSN: 2583-7117

Published: 06.10.2026

Citation:

Farooq Akmal, Munish Dulta "Challenges of Financial Inclusion in Himachal Pradesh: A Comprehensive Analysis of Barriers and Progress" International Journal of Innovations in Science Engineering and Management, vol.5, no.4, 2026, pp. 58-71

DOI:

10.69968/ijisem.2026v5i458-71



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Challenges of Financial Inclusion in Himachal Pradesh: A Comprehensive Analysis of Barriers and Progress

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Abstract

The study includes an analysis of the achievements and key constraints in financial inclusion in HP, including financial outreach, Pradhan Mantri Jan Dhan Yojana (PMJDY), and digital financial services, credit, insurance, and limiting factors in the usage of formal financial services. The study aims at two major objectives: one, to look at the status of financial inclusion in HP, and two, to outline the major challenges for financial inclusion in HP. The research design uses descriptive and analytical research, with the primary source of data from secondary sources. The information is extracted from RBI, NABARD Reports, PMJDY statistics, Government reports, national surveys, and peer-reviewed empirical studies with peer reviews. Progress and barriers to progress are measured through tabular analysis, trend examination, and thematic synthesis. The results indicate significant strides in financial inclusion, including a robust network of banks and financial institutions in the rural areas, increasing bank deposits and advances, and an estimated 20.17 lakh PMJDY accounts by August 2026. But inclusion is still hampered by the ruggedness of the terrain, the lack of digital infrastructure, financial and digital illiteracy, access-usage gap, credit exclusion, low insurance coverage, cybersecurity and trust issues. The study is a contribution to the literature as the financial inclusion in the state of HP has been assessed in an integrated and multidimensional manner, which involves the banking infrastructure, government programmes, digital finance, credit, insurance, and unique geographical issues facing the state. The study recommends that policy should shift from mere ownership to accessible, affordable, secure, and widely adopted financial services, supported by a more robust digital system, financial literacy, locally relevant banking distribution channels, inclusive credit, and adequate micro-insurance.

Keywords; Financial inclusion; Himachal Pradesh; PMJDY; digital financial inclusion; rural banking; financial literacy; credit exclusion; micro-insurance; cybersecurity.

INTRODUCTION

Financial inclusion has been increasingly integrated into the development agenda, given that access to adequate and affordable financial services can contribute to the security of the household, economic participation and inclusive development. It's not just about having a bank account, but about being able to access and make good use of savings, credit, payments, insurance, pensions, and digital financial services. In addition to pointing out that financial inclusion is multi-dimensional, Pesqué-Cela et al. (2021) highlight that traditional indicators that emphasize the supply of financial services do not always reflect if a low-income household is effectively using financial services. So, assessing financial inclusion must take into account not only access, but also use, availability, and quality of financial services. Much progress has been made in formal financial services through business correspondents, Aadhaar-linked financial services, digital payments, formal financial services programmes for financial inclusion, banking expansion and the Pradhan Mantri Jan Dhan Yojana (PMJDY) in India. Grassroots financial institutions are still critical, especially in rural areas, where households might rely on informal lenders to provide credit. Cooperative and commercial banking institutions can have a beneficial impact on reducing dependence on moneylenders, but the impact varies depending on the degree and type of financial inclusion (Saravanabhavan & Rajeev, 2024). Also, the financial inclusion landscape has undergone a transformation with the advent of digital transformation.

Digital public infrastructure (DPI), especially Aadhaar, UPI (Unified Payments Interface and Account Aggregators), has opened up new possibilities for improving payments, banking, and credit services for underserved populations (Chopra et al., 2026). Formal access does not necessarily lead to meaningful financial inclusion, however. However, digital access and usage remain unequal across income, education, employment, gender, and geographical location, and this is particularly notable in geographically challenging areas where physical distance, limited connectivity, and socioeconomic factors can limit the way that financial services are used (Nandru et al., 2024).

The case of Himachal Pradesh is important to look into because the mountainous landscape, scattered rural populations, remote areas, and varying levels of digital connectivity create unique financial-service delivery challenges. On the other hand, Mishra et al. (2023) found that the socio-economic profile has a positive association with financial inclusion based on PMJDY for 393 marginalised people in Himachal Pradesh, and that outreach, accessibility, usage, and service quality are important determinants of financial inclusion under PMJDY.

In this backdrop, this paper reviews the ongoing progress of financial inclusion in HP and outlines the key challenges still hampering meaningful financial inclusion in the state in a mountainous region.

LITERATURE REVIEW

Conceptualizing Financial Inclusion

Financial inclusion is a broad term which refers to universal access to a broad array of financial services that are available at an affordable price, such as banking services, insurance and equity services (Rajan, 2009). The Reserve Bank of India (2006) defined it as the delivery of low-cost financial services to the unbanked, which includes payments, remittances, savings, loans, and insurance. The concept of financial inclusion is often characterized by access to accessible and affordable financial services that are useful and appropriate for individuals and businesses. Chandnani and Masand (2022) define it as "Accessible and affordable banking, insurance, and other financial services" and link it to the economic and social empowerment of disadvantaged groups.

Sarma (2008) has created an Index of Financial Inclusion (IFI) that shows that there is a strong positive relationship between measures of human development and financial inclusion, with income, physical connectivity, and information availability having a positive effect. Recently, digital financial inclusion (DFI) has become a key paradigm,

and it is vital to reach previously excluded groups of people through mobile phones, internet access, and digital payment channels.

Financial Inclusion in India: National Context

One of the significant milestones was the introduction of Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014. There has been a surge in financial inclusion efforts in India since 2014. In August 2014, Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched with the objective of making previously unbanked households a part of the formal banking system by offering basic bank accounts and making them eligible to avail various payment, credit, insurance, pension, and government-transfer facilities. The study indicates that PMJDY significantly increased the outreach of the banking sector, but financial inclusion has to be accompanied by regular and meaningful usage of bank accounts. A study of Indian banks also shows that public-sector banks have been particularly useful in the drive towards making PMJDY services available to the excluded groups (Singh & Naik, 2023).

According to Mustafa (2022) there are several financial inclusion challenges in India, such as price factors, non-price factors (documentation requirements), behavioral factors, geographical factors, financial illiteracy, technological barriers, and social barriers (gender inequality). Singh and Pushkar (2019) highlighted that although there has been a rise in account ownership, usage is still low and 43% of the account holders made no deposits or withdrawals in a year. Despite this, India has also seen significant progress in accessing formal financial services. The Global Findex Database 2021 shows that the share of adults with an account rose from 35% in 2011 to 78% in 2021. There was also a significant reduction in the disparity between men and women in terms of account ownership. But in 2021, there were 35% inactive accounts, and 35% of adults reported making or receiving digital payments. Besides, the figures for the use of digital payments in rural areas were still lower than those in urban areas. The results indicate an important difference between financial access and financial usage: simply having an account does not imply that households are actively using savings, credit, insurance, or services using digital payments (Demirgüç-Kunt et al., 2022).

Digital Finance and Financial Technology

Digital finance and financial technology (FinTech) are playing a critical role in financial inclusion by transforming how people and businesses can access, utilize, and manage financial services. Digital finance in general is financial services provided electronically via digital channels such as

mobile banking, internet banking, digital payments, electronic fund transfers, digital credit, insurance, and investment services. On the other hand, the term FinTech refers to the use of technological innovation to enhance or create financial products and services. The rise in smartphone usage, Internet penetration, Aadhaar, mobile banking, Unified Payments Interface (UPI), and other digital public goods has helped to usher in a new era of financial transformation in India (Chopra et al., (2026).

Digital finance has transformed the chances for financial inclusion. The study by Cheenu Rathi et al. (2024) is concerned with the impact of FinTech innovations like blockchain, digital wallets, and UPI on rural banking in India. But they said that rural FinTech literacy was still low as per reports by SEBI, only 27% of Indians are financially literate.

In a mixed-method study in Himachal Pradesh, it was observed that 56% of the respondents use digital financial services, with the most popular being debit/credit cards (43%) and mobile banking (41%) (Negi & Kumar, 2025). But 44 per cent of respondents reported not utilizing any digital financial services due to a lack of knowledge, trust, and internet connectivity in rural areas. Furthermore, digital finance can have distinct welfare impacts compared to financial inclusion. A recent study of digital financial inclusion at the household level in India indicates that digital financial inclusion is linked to increased transitory consumption for households with lower income levels, while traditional financial inclusion seems to be more closely tied to lower borrowing costs. The study thus underscores the need for digital literacy and protections against unfair or predatory lending practices where digital access (e.g., to credit) becomes easier (Kumar et al., 2026).

Micro-Insurance and Risk Management

The role of micro-insurance in financial inclusion is significant as low-income households are extremely vulnerable to financial shocks and also lack standard insurance coverage. Micro-insurance is an insurance product that is tailored to offer small coverage for the poor and vulnerable to risks like illness, death, accident, crop damage, livestock loss, natural disasters, and loss of livelihood. Insurance is important because it allows for risk pooling and risk transfer, as opposed to savings and credit, which are primarily used to manage resources and investment. Therefore, micro-health insurance can mitigate the impact of an unexpected event by reducing out-of-pocket expenditure, catastrophic health expenditure, borrowing, and poverty, and by protecting household savings, assets, and consumption (Habib et al., 2016).

Access to micro-insurance does not automatically mean utilization of the insurance or successful implementation. Low enrolment, limited renewals, pricing problems, lack of awareness, poor understanding of insurance, adverse selection, and mistrust of insurers are thus relevant issues for the success of micro-insurance in India; ease of documentation, speed of claim settlement, premium structure, financial literacy, and products that fit household needs are also relevant (Ito & Kono, 2010).

As such, micro-insurance should be considered as a vital risk-management tool and not the cure-all for poverty. Micro-insurance can reinforce financial inclusion through vulnerable household coping in the event of a large shock, asset protection, consumption smoothing, and preventing the risk of poverty by complementing existing community-based risk-sharing mechanisms, along with access to financial services, financial literacy, and access to affordable credit and social protection. (Will et al., 2021).

Challenges of Financial Inclusion in Himachal Pradesh

However, after the rollout of banking networks and the introduction of financial inclusion schemes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), digital payments, and others, there remain a number of factors that hinder proper financial inclusion in the state of HP. This is also a problem of significance as the state's population is largely rural, the terrain is mountainous, the settlements are scattered, and the communities are distant from the major service centres. Hence, financial inclusion should not be limited to mere bank account ownership but should take the accessibility, usage, affordability, service quality, financial literacy, and digital capability of individuals into consideration in Himachal Pradesh (Rao, 2025).

Geographic and physical reach is still a problem. Banking in the mountains can be expensive for customers and banks due to mountainous geography, isolated villages, poor road connectivity and long travel times. The challenges are greater for the people living in remote and tribal areas. Data on the beneficiaries of PMJDY in HP shows that outreach, access, use, and quality of financial services are important aspects of financial inclusion among the marginalized populations. Thus, without having an account, a household may not easily and regularly access formal financial services (Mishra et al., 2023). Financial literacy and awareness is another huge challenge. Households in rural areas may have basic knowledge about banking services, but may not be aware of more sophisticated financial products, such as insurance, pensions, investment products, formal credit, and digital financial services. As per the research, financial inclusion programmes are not aligned

with financial literacy of rural households in Mandi district, especially in the use of sophisticated financial products and financial services. In a similar way, financial education is an important issue for the marginalized people living in hilly regions of Himachal Pradesh (Thakur et al., 2026). Based on the study of 360 respondents in rural areas of Himachal Pradesh, Chetna and Kumar (2025) explore the barriers to awareness and adoption of e-banking services. Bilaspur data also shows that monthly digital-payment habits will be influenced by user-friendliness, trust, presence of smartphones, digital literacy, and supportive infrastructure. Elderly, poorly educated, low-income, and geographically isolated users may be particularly affected by these barriers. Another significant barrier is the digital divide. While digital banking can transcend geographical barriers, some key components such as the need for the internet and mobile connection, smartphones, digital competency, and technological trust are needed to make effective use of it.

One of the difficulties is access to finance, as opposed to access to use. While PMJDY has significantly expanded access to formal accounts, it is essential that households actively engage in using savings, payments, affordable credit, insurance, and other appropriate services in order to achieve meaningful inclusion. Using data on the marginalised users of PMJDY in the state of HP, explain the vital role of financial education & online banking in improving financial inclusion, and also highlight the importance of household income in improving financial inclusion. When households have an account with the bank, low income can limit their ability to save, buy insurance, take out formal loans, or access other financial services Kaur et al., (2025).

RESEARCH GAP

While financial inclusion has garnered significant attention in India, literature specifically on financial inclusion in the state of HP is relatively limited and scattered. Most of the existing research focuses on only one aspect of financial inclusion, either the financial inclusion benefits of PMJDY or the use of digital banking or financial literacy, or on the access, usage, and service quality of PMJDY beneficiaries. To this end, it is critical to understand how the physical banking infrastructure, digital finance, credit, insurance, and government policies influence each other in the unique geographies of HP and how they impact actual financial-service usage. Especially, the financial burdens of hilly terrain, dispersed settlements, remote areas, tribal areas, and disaster-prone areas have not been given due consideration. Further, this study aims to fill the above

lacunae by carrying out a multidimensional secondary data analysis of the progress and the ongoing challenges of financial inclusion in the State of HP with a focus on the shift from financial access to effective and meaningful financial inclusion.

OBJECTIVES

- To examine the current progress of financial inclusion in Himachal Pradesh.
- To identify the major challenges to effective financial inclusion in Himachal Pradesh

RESEARCH QUESTIONS

- What is the current level and nature of financial inclusion in Himachal Pradesh?
- What barriers continue to restrict effective inclusion, and what policy measures can address them?

METHODOLOGY

The present study is of Descriptive and Analytical research in nature, which is entirely secondary data-based work in order to analyse the development and critical issues of Financial Inclusion in the state of HP. This approach is suitable as this study will review, organise, compare and interpret existing evidence rather than gather it. The methodology used is in line with the two goals of the study, which are: (1) to understand the financial inclusion status in HP at present, and (2) to understand the major challenges of achieving financial inclusion in the state.

Data Sources and Collection

Secondary information gathered from 2000-2026, with increased importance on more recent data. Two general types of sources are employed in the study. Official secondary data were gathered from publications and databases of the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), State Level Bankers' Committee (SLBC) – HP, Department of Financial Services/PMJDY, Government of India, Government of HP, and national financial inclusion surveys. These sources contain information on bank branches, deposits, advances, credit-deposit ratios, priority-sector lending, PMJDY and rural banking outreach, and other indicators. For instance, the paper takes a comparison of the selected banking indicators for 2023–2025 and analyses the statistics of PMJDY till August 2026.

Secondly, the study is based on research papers and empirical studies, most of which are peer-reviewed articles and studies, particularly on studies related to Himachal Pradesh and rural India. The relevant literature was chosen

based on the linkage with financial inclusion, banking accessibility, digital finance, PMJDY, financial literacy, credit, micro-insurance, Business Correspondents, cyber security, and barriers to access for rural and marginalised groups. Studies with direct empirical evidence from HP were accorded more importance.

Data Analysis

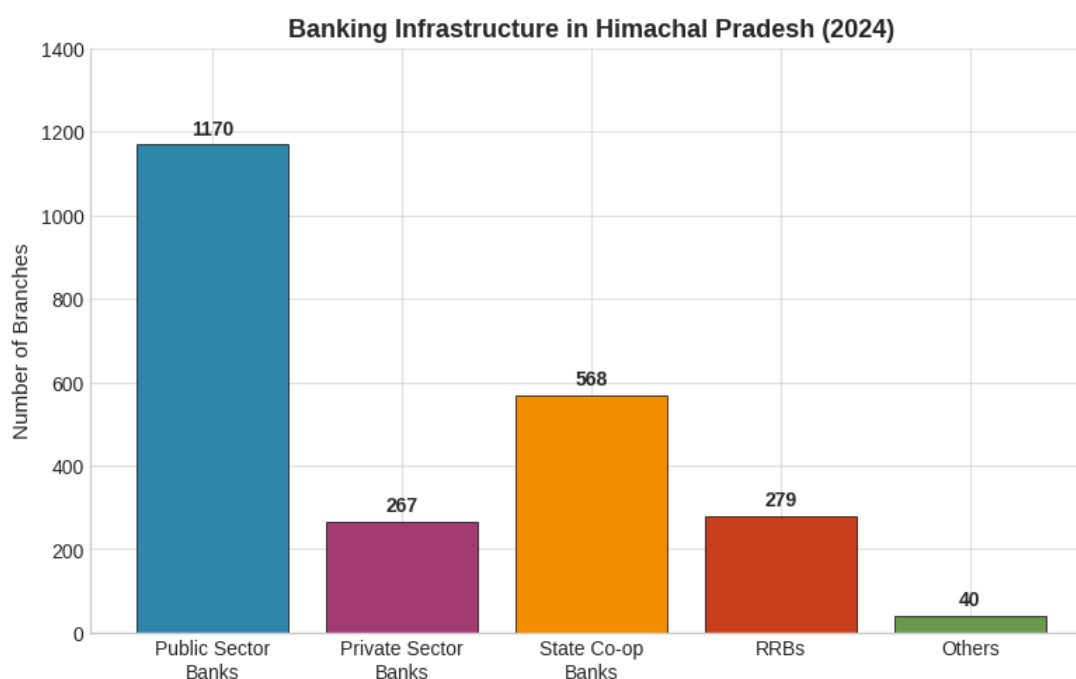
The data obtained were analysed descriptively, trending, comparing, and thematizing. The changes in the infrastructure of the banking system, deposits and advances, priority sector credit, PMJDY coverage and digital financial services were analyzed using descriptive and trend analysis. Key indicators and trends over time were presented in tables and figures. Thematic synthesis was used to categorize the barriers identified into the major themes: geographical and physical-access barriers, digital infrastructure constraints, financial and digital-literacy barriers, access–usage gap, credit exclusion, insurance under-penetration, cybersecurity and trust barriers. Wherever possible, evidence from

research studies was compared with official statistics and institutional reports to enhance the reliability of the analysis. The study only uses secondary data, however, which means that the conclusions that are drawn depend on the availability, accuracy, geographical scope, definitions, and reporting periods of the existing sources. Thus, it does not claim to be a new household-based causal evaluation of financial inclusion in HP but offers an extensive synthesis of existing evidence.

PROGRESS OF FINANCIAL INCLUSION IN HIMACHAL PRADESH

Overview of Financial Inclusion in Himachal Pradesh

The state of Himachal Pradesh has 2,292 bank branches of which over 76% are in rural areas. The state has 2170 ATMs in different banks. Public Sector Banks (PSBs) have the maximum number of branches, accounting for 1,170 out of 1,464 branches, followed by State Cooperative Banks (568 branches), Regional Rural Banks (279 branches) and Private Sector Banks (267 branches).



Source: *Banking Infrastructure in Himachal Pradesh (2024). Data compiled from RBI Annual Report 2024-25 and Chandra (2025).*

Significant strides have been made in financial inclusion in H.P. in the past 20 years, especially with regard to bank branches, basic savings accounts, priority sector lending, government financial inclusion programmes, digital banking, insurance schemes and Business Correspondent (BC) services. This movement is similar to the trend that can

be observed at the national level, where the penetration of branches, ATMs and accounts has been growing steadily since the early 1990s (Sethy, 2016). Over the years, the number of banks with branches in rural villages and the number of basic savings bank deposit accounts have been increasing in regional rural banks (Kharuri & Manjunatha,

2018). This improvement is particularly significant in the mountainous terrain of the state with scattered settlements, a large rural population, and remote tribal areas, which means that delivery of conventional banking services is relatively more difficult in Himachal Pradesh. Therefore, the financial inclusion journey of the state can be viewed from different angles such as banking outreach, account ownership, deposits, loans, priority sector lending, digital financial services, insurance, and utilisation of financial services (Chaudhary & Thakur, 2025). Specifically, under the financial inclusion framework, CRISIL Inclusix, the state of Himachal Pradesh had the highest financial inclusion score (94.2) among all the rural-dominated states in India; However, evidence at the national level warns that while financial inclusion of deposits is increasing, financial inclusion of financial products and services is lagging behind and credit is a weak financial inclusion lever in rural areas (Hajam et al., 2024). (see Figure 1).

The average population per bank branch in Himachal Pradesh was approximately 3,202 as per the 2011 Census, significantly better than the national average of 11,000 (Testbook, 2026). Shimla remains the only urban center classified by the RBI, with 115 branches, while 1,715 branches serve rural areas and 414 serve semi-urban locations.

Expansion of Banking Infrastructure and Institutional Outreach

One of the most obvious signs of progress is the growing network of banks. As per the Government of Himachal Pradesh (2025), as of September 2024, the state had 2,352 banks, with 1,793 branches being in rural areas, or over 76% of the total banks. The state also was home to about 2,120 ATMs. This widespread rural footprint is significant as geographical access has long been a key constraint to financial inclusion in mountain areas. However, there are still significant differences between districts: In Kangra district, there were 431 branches, while in the geographically challenging Lahaul and Spiti district, there were only 26 (MockKitaab, 2026). District-level analysis also shows that these differences are systematic, with Solan and Shimla having the highest scores on banking availability, accessibility, and usage indices, and Bilaspur, Chamba, Kullu, Kinnaur, Lahaul-Spiti, Mandi, Sirmaur, and Una being in the low financial inclusion category (Chetna . & Vikas Kumar, 2025).

The State Level Bankers' Committee (SLBC) data indicate continued growth in more recent times. The number of bank branches increased from 2,279 in March 2023 to

2,341 in March 2024 and 2,366 in March 2025. Hence, since a relatively wide banking network had already been created, the expansion has continued (SLBC Himachal Pradesh, 2025). There is also significant growth in the number of branches and deposits for the state over the years, and the trends of penetration and credit allocation are persistent, with the rural areas continuing to face disparities (Mehta et al., 2024).

The state's banking infrastructure has expanded through multiple institutional forms:

Table 1

Institution Type	Number of Branches	Rural Share	Key Contribution
Public Sector Banks	1,170	~78%	Core banking network, PMJDY implementation
State Cooperative Banks	568	~85%	Agricultural credit, short-term lending
Regional Rural Banks	279	~90%	Last-mile rural connectivity
Private Sector Banks	267	~45%	Digital services, urban/semi-urban focus
Payment Banks/SFBs	29	Mixed	Digital payments, remittances

Source: Institutional Banking Infrastructure in Himachal Pradesh. Sources; RBI Annual Report 2024-25.

NABARD has actively supported financial inclusion in Himachal Pradesh, sanctioning ₹3.80 crore in FY 2023-24 for Financial and Digital Literacy Camps, with ₹2.84 crore specifically allocated for spreading financial literacy and awareness. Additionally, NABARD is implementing the "Promotion of Digital Payments in Mandis" program in Dhalli (Shimla) and Solan APMC markets.

Growth in Deposits, Credit and Banking Business

Financial inclusion is not limited to physical access; the use of banking services is equally important. Himachal Pradesh has experienced substantial growth in deposits and advances. Total deposits increased from ₹170,516.52 crore in March 2023 to ₹202,617.17 crore in March 2025. During the same period, outstanding advances increased from ₹65,762.48 crore to ₹98,048.26 crore. Consequently, total banking business increased from ₹236,279 crore to ₹300,665.43 crore (SLBC Himachal Pradesh, 2025; Chavan & Kamra, 2024).

Progress of Selected Banking and Financial Inclusion Indicators in Himachal Pradesh, 2023–2025

Indicator	March 2023	March 2024	March 2025	Change 2024–25
Bank branches	2,279	2,341	2,366	+1.07%
Total deposits (₹ crore)	170,516.52	187,005.91	202,617.17	+8.35%
Total advances (₹ crore)	65,762.48	83,933.99	98,048.26	+16.82%
Total banking business (₹ crore)	236,279.00	270,939.90	300,665.43	+10.97%
Credit–Deposit ratio (%)	40.58	46.83	50.29	+3.46 percentage points
Priority-sector advances (₹ crore)	38,361.07	43,556.97	47,537.56	+9.14%
Agriculture advances (₹ crore)	11,266.68	12,761.99	13,847.50	+8.51%
MSME advances (₹ crore)	17,114.21	19,611.37	22,428.63	+14.37%
Advances to weaker sections (₹ crore)	11,877.48	13,367.32	13,898.24	+3.97%
Advances to women (₹ crore)	7,459.43	9,160.23	10,942.26	+19.45%
Advances to SCs/STs (₹ crore)	3,468.41	4,140.88	4,640.18	+12.06%

Source: Compiled from State Level Bankers' Committee Himachal Pradesh (2025), *Comparative Banking Key Indicators as of 31 March 2025*.

The table demonstrates that financial inclusion in the state has progressed not only in physical banking infrastructure but also in the volume of financial activity. Particularly noteworthy is the improvement in the **Credit–Deposit (CD) ratio**, which increased from 40.58% in 2023 to 50.29% in 2025. However, this indicator also shows an important limitation: a substantial proportion of deposits mobilised within the state is still not converted into credit locally.

Progress Under Pradhan Mantri Jan Dhan Yojana

The total number of PMJDY accounts in Himachal Pradesh was around 20.17 lakh, of which 93.3% (18.81 lakh) were rural, and 6.7% (1.35 lakh) were urban accounts as of August 2026 (PMJDY, 2026). This distribution is in keeping

with the scheme's effective targeting of unbanked rural population.

The Pradhan Mantri Jan Dhan Yojana (PMJDY) has been a significant success in boosting basic account penetration. As on 31st September, 2024, there were around 18.55 lakh PMJDY accounts, with 16.60 lakh rural and 1.95 lakh urban accounts. The government reported that around 1.26 lakh RuPay debit cards had been issued and 84% of the PMJDY accounts were linked with Aadhaar and phone numbers till 2025 (Government of Himachal Pradesh, 2025). The key to this growth is the zero-balance accounts, RuPay debit cards, overdraft facilities, and Jan Dhan–Aadhaar–Mobile (JAM) Trinity, which has helped achieve direct benefit transfers (DBT) nationally (Kurussiveetil & Karuppanagounder, 2024).

By September 2025, the PMJDY accounts reached around 19.42 lakh, including around 16.91 lakh in rural areas. This pattern reflects the deep-rootedness of the financial inclusion drive in rural areas in the state of HP. There was an increase in the linkage of Aadhaar and mobile, which improved infrastructure for Direct Benefit Transfer (DBT) and digital financial transactions, as it was above 83%. This process is mediated by the digital dimension: Online banking acts as a reinforcing mechanism between financial literacy and financial inclusion among the financial literacy beneficiaries in HP (Kaur et al., 2025); Sharma et al., 2024), but digital channel studies in the state have highlighted the key role of connectivity, security, and digital literacy gaps, particularly in rural areas.

The household-level evidence also highlights the importance of PMJDY. Mishra et al. (2023), based on primary data collected from 393 marginalized individuals in HP, concluded that outreach, accessibility, usage, and quality of financial services are significant factors influencing financial inclusion under PMJDY. The study also found that there was a positive correlation between financial inclusion driven by PMJDY and the socio-economic status of the marginalized beneficiaries. This evidence is important especially because it goes beyond mere numbers and looks into the true socioeconomic importance of financial inclusion. Survey evidence from rural areas of the state of Himachal Pradesh is also consistent, finding that financial inclusion measures are associated with positive income, savings, and welfare outcomes, but that the spread of financial inclusion schemes is limited by the problems faced by banks in providing such schemes in the state (Kumar & Sharma, 2025; Pathania & Dewan, 2022).

Table 2

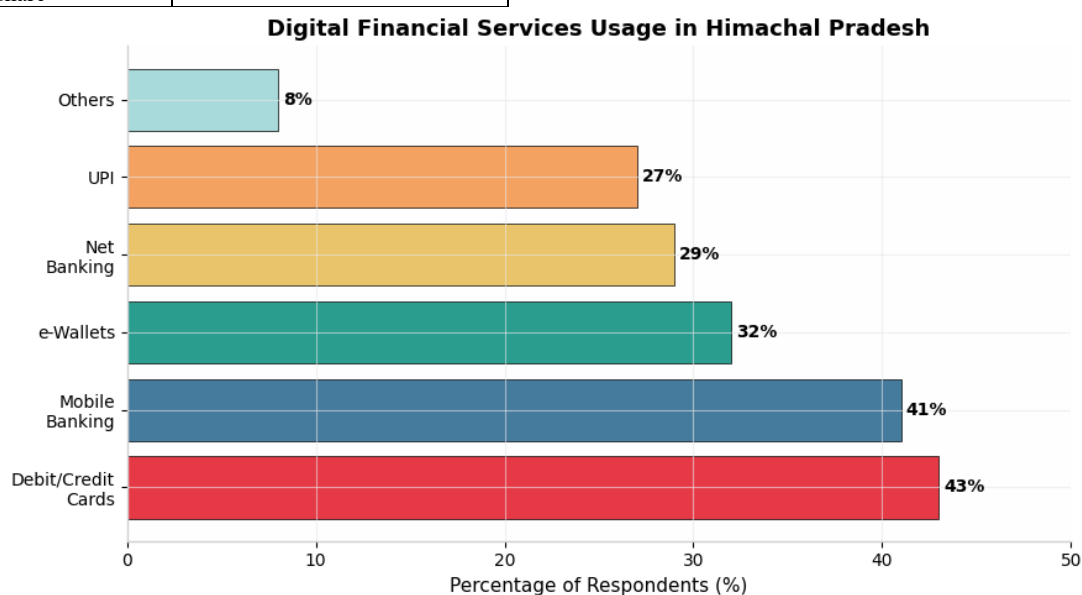
Recent PMJDY indicators for Himachal Pradesh

Indicator	Position as of 19 August 2026
Rural/semi-urban beneficiaries	1,881,155
Urban/metro beneficiaries	135,522
Total beneficiaries	2,016,677
Deposits	₹1,565.27 crore
RuPay cards issued	1,321,934
Approx. rural/semi-urban share	93.3%

Source: Department of Financial Services, PMJDY state-wise statistics

Digital Financial Inclusion and Payment Expansion

Digital financial services in Himachal Pradesh have shown promising growth. 56% of respondents used digital financial services, with debit/credit cards (43%) and mobile banking (41%) being the most widely adopted tools (see Figure 3).

**Figure 3: Digital Financial Services Usage in Himachal Pradesh. Source: Chandra (2025).**

UPI adoption, while growing, remains lower than national averages in rural Himachal Pradesh. A study in Mandi district found that 63% of UPI users transacted daily, with Google Pay being the preferred application (92.5% of users) (Himachal Journals, 2024). However, transaction failures (33.5%) and delays (27%) remain significant concerns.

Nationally, UPI has grown exponentially, processing over 24,162 crore transactions valued at ₹314 lakh crore in FY 2025-26 (Press Information Bureau, 2026). Himachal Pradesh benefits from this infrastructure, though rural connectivity gaps limit equitable access.

Expansion of Inclusive Credit

Progress is also visible in credit provided to economically and socially important groups. Priority-sector advances increased from ₹38,361.07 crore in 2023 to ₹47,537.56 crore in 2025, while agricultural advances increased from ₹11,266.68 crore to ₹13,847.50 crore.

MSME advances recorded particularly strong growth, increasing from ₹17,114.21 crore to ₹22,428.63 crore over the same period (SLBC Himachal Pradesh, 2025). The delivery of such credit has relied on the wider institutional apparatus of business correspondents, Kisan Credit Cards, and self-help groups that banks in the state have operationalized (Kumar, 2025).

There has also been improvement in lending to vulnerable groups. Advances to women increased from ₹7,459.43 crore in 2023 to ₹10,942.26 crore in 2025, including year-on-year growth of 19.45% during 2024–25. Advances to Scheduled Castes and Scheduled Tribes increased from ₹3,468.41 crore to ₹4,640.18 crore during 2023–2025. These developments suggest that the state's financial inclusion process is gradually moving beyond account ownership towards credit participation. Nevertheless, the national and state-level evidence counsels caution: credit penetration among asset-poor rural households remains limited, and credit-deposit ratios in rural

India have not kept pace with deposit mobilization (Goud, 2026).

CHALLENGES OF FINANCIAL INCLUSION

Despite progress, Himachal Pradesh faces persistent, interconnected challenges that limit the effectiveness of financial inclusion initiatives. Financial inclusion in Himachal Pradesh has improved considerably through the expansion of bank branches, the Pradhan Mantri Jan Dhan Yojana (PMJDY), Business Correspondents (BCs), digital payments, Self-Help Groups (SHGs), insurance schemes and other government programmes. The *Economic Survey 2025–26* reports 2,378 bank branches, about 76% located in rural areas, and approximately 19.42 lakh PMJDY accounts, around 87% of them in rural areas. These figures indicate strong progress in formal access. However, financial inclusion should not be measured only by the number of bank accounts or branches. Effective inclusion requires regular usage, affordability, financial knowledge, access to credit and insurance, reliable digital services and confidence in the formal financial system. Research conducted specifically in Himachal Pradesh shows that several barriers continue to restrict these dimensions.

Geographic and Physical-Access Barriers

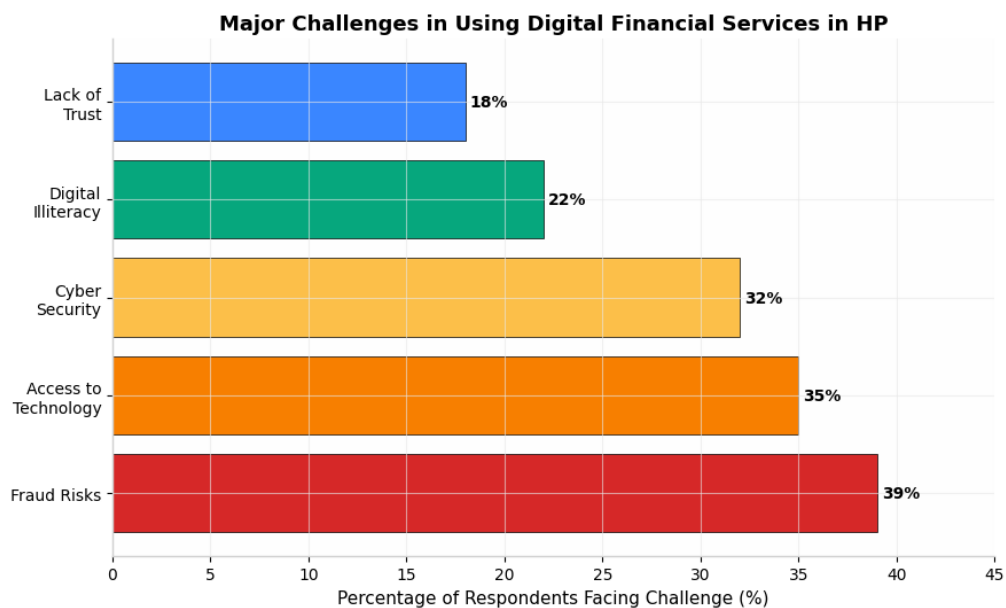
The mountainous region of HP presents basic access issues. The state has a good ratio of one branch for every 3,202 persons, but many of the branches are located in

valleys and district headquarters. Road connectivity is limited in remote villages in some districts such as Kinnaur, Lahaul-Spiti and Chamba, particularly in the winter season.

In the villages, there was an increase in banking outlets from 33,378 to 56,579 between March 2010 and December 2024, while in small villages (less than 2,000 population), the number of banking outlets decreased from 2,77,594 to 2,72,941 during the same period (Reserve Bank of India, 2025), which shows sustainability issues in the BC model in remote areas. The study highlights the unique challenges of financial-service delivery and digitalization in rural areas of HP, including its rugged topography, dispersed population, and weak internet connectivity. Therefore, the challenge has slowly moved from just having more accounts to being able to access financial services conveniently and continuously for those living in geographically challenging areas (Chetna & Kumar, 2025).

Digital Divide and Infrastructure

The digital divide represents one of the most significant barriers. 35% of digital finance users in Himachal Pradesh cited "lack of access to technology" as a major challenge, while 22% reported "digital illiteracy". The rapid digitalisation of India's financial system has created new opportunities for Himachal Pradesh, but it has also created another form of exclusion. Mobile banking, UPI, Aadhaar-enabled payments and internet banking depend upon stable connectivity, access to suitable devices and the ability to operate digital platforms. (see Figure 4).



Sources: Major Challenges in Using Digital Financial Services in Himachal Pradesh. Source: Chandra (2025).

Key infrastructure gaps include:

- **Internet connectivity:** Rural and remote regions still face connectivity challenges, limiting access to digital financial services
- **Power supply:** Unreliable electricity in hilly areas affects digital device usage and ATM functionality
- **Smartphone penetration:** While growing, many low-income households use basic phones unsuitable for UPI or mobile banking
- **Language barriers:** Many digital platforms operate primarily in English or Hindi, creating difficulties for elderly users (Negi & Sharma, 2026).

Financial and Digital Literacy

Financial literacy is another major barrier because possessing a bank account does not necessarily mean that an individual understands savings products, formal credit, insurance, pensions, digital payments, or financial risks.

This problem is particularly important among vulnerable communities.

While Himachal Pradesh has achieved near-universal general literacy (99.3%), financial literacy remains low. According to SEBI estimates, only 27% of Indians are financially literate. In Himachal Pradesh, Kaur (2024) identified "lack of understanding of micro insurance concepts" and "lack of dissemination of information" as critical barriers, with factor loadings of 0.822 and 0.858, respectively. Financial literacy- encompassing basic mathematics, business financial skills, and product understanding-acts as a constraint for accessing formal financial services. The distinction between general literacy and functional financial literacy is particularly relevant in Himachal Pradesh, where educated populations may still lack understanding of digital transactions, interest calculations, and insurance products (Cheenu Rathi et al., 2024; Singh & Singh, 2023).

Access-Usage Gap

One of the most important challenges is the difference between having access to financial services and actually using them meaningfully. Himachal Pradesh has achieved extensive PMJDY coverage. The 2025–26 Economic Survey reports approximately **19.42 lakh PMJDY accounts**, with the large majority in rural areas. Nevertheless, high account ownership alone cannot establish that households regularly use savings, formal credit,

insurance, pensions, and digital transactions. India faces a significant access-usage gap. Globally, 35% of adults in India with bank accounts had inactive accounts in 2021-the highest rate among developing economies. In Himachal Pradesh, while 56% of respondents used digital financial services, 44% did not use any such services

- The "dormant account" phenomenon reflects:
- Accounts opened for government benefit receipt but not used for savings or transactions
- Lack of awareness about account features and benefits
- Distance from branches discouraging regular usage
- Preference for cash transactions in informal economic activities (Riha Parvin & Panakaje, 2022).

Credit Exclusion

Access to formal credit remains a critical challenge. The financially excluded population in India primarily includes landless laborers, unorganized sector workers, marginal farmers, migrants, and socially excluded groups. In Himachal Pradesh, agricultural dependence and small landholdings create specific credit challenges:

- **Collateral requirements:** Small and marginal farmers struggle to meet collateral requirements for institutional loans
- **Seasonal income:** Agriculture- and tourism-dependent incomes create repayment timing mismatches
- **Limited credit history:** First-time borrowers lack credit scores, making risk assessment difficult for banks
- **Informal borrowing:** Despite high banking penetration, many rural residents continue relying on moneylenders for quick, collateral-free loans (Sharma et al., 2007).

Insurance and Financial Resilience

Himachal Pradesh's vulnerability to natural disasters—floods, landslides, and avalanches—makes insurance critical for financial resilience. However, (Chand, 2024) found that micro-insurance penetration is constrained by:

Challenge Factor	Key Manifestations	Factor Loading
Financial Constraints	Hard to pay premiums, irregular income, competing liabilities	0.892
Accessibility & Distribution	Lack of suitable products, few local agents, weak rural networks	0.814

Awareness & Communication Gaps	Poor information dissemination, misunderstanding of insurance concepts	0.858
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Source: (Chand, 2024). Key Challenges to Micro-Insurance in Himachal Pradesh.

The study revealed that financial constraints explained 25.739% of variance, accessibility issues 24.911%, and awareness gaps 24.135%, together accounting for 74.785% of total variance in micro-insurance challenges.

Cybersecurity, Trust, and Consumer Protection

With the growth of digital finance, cybersecurity issues have grown more pronounced. Banks with digital platforms were most concerned about fraud risks (39%), cybersecurity (32%), and lack of trust (18%) as security issues in FinTech. The hacking of Pine Labs and the compromise of financial institutions in India have revealed the dangers for users of digital payments. The risks are a major psychological barrier for rural populations with less digital literacy.

However, technology can exacerbate financial exclusion if people are afraid of cybercrime, do not trust financial platforms, or do not trust to provide financial information online, he said. However, establishing trust is important, supported by strong consumer protection laws and a complaints redressal system (Kreiterling, 2019).

CONCLUSION

The study finds that the achievement of financial inclusion in the state of HP has been significant, but there is a huge gap between access and utilisation of financial services. Over the years, the state's formal financial system has been well bolstered through the efforts of banking infrastructure, PMJDY, digital financial services, priority sector lending, and other government efforts. Himachal Pradesh has a vast network of bank branches, with more than three-fourths of rural branches. The high growth of account holders, advances, priority-sector lending, and deposits by and for women and SC/ST beneficiaries by August 2026 also reflects the gradual progress of financial inclusion beyond mere account ownership.

However, financial inclusion has not been completely achieved. The study highlights several interrelated barriers that may affect the availability of physical and digital access to financial services, such as mountainous and geographical isolation, the lack of digital infrastructure, financial and digital illiteracy, access–usage gap, credit exclusion,

insufficient penetration of financial services, cybersecurity and trust concerns.

The results thus indicate that the way forward on financial inclusion in the state should be to not just expand the number of accounts/financial outlets, but to promote their regular, affordable, safe and productive use. At the policy level, there are several key issues such as deepening financial connectivity; extending financial and financial literacy programmes that target local contexts; enhancing the Business Correspondent network; improving access to suitable credit products; creating need-based micro-insurance products and strengthening cybersecurity awareness and consumer protection that need to be given due consideration. Overall financial inclusion will require coordinated and sustained actions at both the government and private sector levels, specifically suited to the geographical and socio-economic context of the region.

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