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Policies and Practices for Financial Inclusion in PSBs in post Pandemic Period

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Abstract: This paper examines policies and practices adopted by public sector banks (PSBs) in India to promote financial inclusion in the aftermath of the COVID-19 pandemic. Using exclusively secondary data (RBI notifications, scheme documents, government reports, industry analysis and published assessments), the study traces the policy response during 2020–2024, documents operational practices undertaken by PSBs (account opening drives, credit guarantee and emergency lending, digital delivery, business correspondent expansion), and evaluates outcomes and challenges for inclusion (account ownership, deposit mobilization, credit flow to MSMEs and vulnerable groups, and the digital divide). The paper concludes with policy and operational recommendations to strengthen resilient, inclusive banking in the next phase.

Keywords: *Financial inclusion, public sector banks, COVID-19.*

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Introduction

Financial inclusion- universal access to useful and affordable financial products and services delivered in a responsible and sustainable manner- is a cornerstone of India's development strategy. Public sector banks (PSBs) historically have played a central role in extending basic banking to the low-income, rural, and underserved populations. The COVID-19 pandemic (from early 2020) created an unprecedented shock to incomes, liquidity, and delivery channels, raising the risk that gains in inclusion could be reversed. Governments and regulators responded with a combination of relief measures (moratoria, liquidity support), targeted credit guarantee schemes, and an accelerated push toward digital delivery. This paper investigates how those policies translated into practices by PSBs and what the observable outcomes were for financial inclusion, drawing on government sources, central bank circulars, scheme operational guidelines and published impact assessments.

Research Objective and Research Questions

Objective: To analyse policies and practices for financial inclusion implemented by public sector banks in India in the post-COVID-19 period using available secondary data, and to evaluate their effectiveness and challenges.

Research questions:

1. What major policy instruments did the Government of India and the Reserve Bank of India introduce to protect/access financial services for excluded and vulnerable populations during and after the COVID-19 shock?
2. How did PSBs operationalize these policies (account servicing, credit delivery, digital channels, BC networks)?
3. What were the measurable impacts on inclusion outcomes (account ownership, deposits, credit flows to MSMEs, female beneficiaries), and what gaps remained?
4. What policy and practice recommendations arise from the secondary evidence?

Research Methodology

This paper uses secondary data from the following primary categories:

- Regulatory circulars and notifications issued by the Reserve Bank of India (RBI) related to COVID-19 relief and subsequent resolution frameworks.
- Scheme documents and operational guidelines (e.g., Emergency Credit Line Guarantee Scheme- ECLGS).
- Government programme statistics (Pradhan Mantri Jan-Dhan Yojana- PMJDY portals and reports).
- Reports and assessments by recognized institutions (NIBM working papers, industry analysts, CARE Ratings updates).

- Reputable news and trade publications (Economic Times, Reuters) for contextual and recent developments.

The analysis synthesizes these sources to answer the research questions; where possible the most authoritative primary documents (RBI, PMJDY, scheme guidelines) are cited for load-bearing claims.

Literature Review

- RBI (2021) highlighted accelerated digital penetration and increased UPI adoption post-Covid.
- NABARD (2022) emphasized the role of Business Correspondents (BCs) and micro-credit in stabilising rural economies.
- Banerjee & Duflo (2021) noted that low-income households increasingly rely on government-backed bank accounts during crises.
- World Bank (2022) reported that India achieved one of the fastest financial inclusion expansions globally due to digital public infrastructure.
- Sharma (2023) found that PSBs outperform private banks in rural outreach but lag in technology-driven service quality. Overall, literature indicates that Covid-19 accelerated the digital shift, widened account ownership, and pushed PSBs to adopt inclusion-oriented innovation.

Policy Measures Adopted in Response to COVID-19

Regulatory forbearance and relief measures

Immediately after the onset of the pandemic, the RBI issued a regulatory package allowing lending institutions to provide relief such as moratoriums on term loan instalments and deferment of interest recovery for working capital facilities. The moratorium and related instructions permitted banks to realign repayment schedules and offered temporarily breathing space to borrowers while preserving the viability of lending relationships. The RBI also announced special monetary and liquidity measures (CRR adjustments, open market operations) to ensure system liquidity. These measures were intended to reduce short-term distress and preserve channel continuity for financial inclusion.

Resolution framework and borrower protection

In addition to short-term moratoria, the RBI published a specific Resolution Framework for COVID-19 related stress, which allowed standardized restructuring options for eligible borrowers and timelines for invoking restructuring. This aimed to prevent widespread credit exclusion by enabling borrowers affected by the pandemic to regain financial stability without immediate classification as non-performing in every case.

Targeted credit guarantee and emergency lending (ECLGS)

To shore up liquidity for MSMEs and other vulnerable enterprises, the Government launched the Emergency Credit Line Guarantee Scheme (ECLGS) under the Atmanirbhar Bharat package. ECLGS provided government-backed guarantees to lending institutions (including PSBs) to extend additional credit to eligible borrowers, thereby enabling banks to continue lending to small firms despite elevated risk perceptions. Subsequent iterations (ECLGS 2.0, 3.0, 4.0) expanded coverage and eligibility for specific sectors (including healthcare). Operational guidelines for ECLGS were issued to member lending institutions. PSBs were significant disbursers under ECLGS.

Inclusion through direct benefit transfers and PMJDY leverage

The PMJDY infrastructure (bank accounts, Rupay cards, Direct Benefit Transfers) played a critical role during pandemic relief distribution. Continued emphasis on deposit accounts, expanded card issuance and the use of bank accounts for government transfers helped anchor inclusion gains and ensured that welfare flows reached accounts rather than cash channels. PMJDY state-wise statistics indicate that PSBs continue to hold the lion's share of beneficiary accounts and deposits.

Digital acceleration and infrastructure support

Regulators and policymakers encouraged rapid adoption of digital payments and alternate delivery channels to reduce physical contact while preserving access. Initiatives included support for interoperable payment rails, promotion of low-bandwidth apps for feature phones, and emphasis on digital public infrastructure such as Account Aggregators and frameworks to ease credit assessment (e.g., Unified Lending Interface). These measures aimed to expand low-cost, scalable access to financial services for remote and underserved populations.

Practices Adopted by Public Sector Banks

PSBs implemented a range of operational practices that translated the policies above into customer-facing actions. Key practices included:

Moratorium implementation and restructuring practices

PSBs implemented the RBI-permitted moratoria and restructuring frameworks, allowing borrowers (retail and MSME) to defer instalments or reschedule debts. This practice reduced immediate delinquencies and helped maintain banking relationships, especially for low-income households dependent on seasonal or informal incomes.

Participation in ECLGS and targeted lending to MSMEs

PSBs actively participated in ECLGS and were major conduits of emergency credit to MSMEs. Industry tracking noted that PSBs were responsible for a substantial share of both sanctions and disbursements under ECLGS, reflecting their outreach footprint and policy orientation toward supporting small enterprises. CARE and other analysts documented PSBs' prominent role in scheme implementation.

PMJDY-linked outreach and account servicing

PSBs continued to conduct mass account opening and servicing drives under PMJDY, issuance of Rupay cards, and linkage for social security products (like PMSBY, PMJJBY and Atal Pension Yojana). Government transfers during the pandemic were routed largely through bank accounts, reinforcing the role of PSBs as primary administrators of foundational inclusion infrastructure.

Digital channel expansion and BC network scaling

PSBs scaled up digital delivery (mobile banking, Aadhaar-enabled payment systems, UPI integrations) and strengthened business correspondent (BC) networks to serve remote customers. Where smartphone penetration was low, PSBs sought feature phone–friendly solutions and agent networks. Regulators encouraged banks to design products for lower-bandwidth environments and to improve cybersecurity for inclusive digital adoption.

Financial literacy and KYC adaptations

To reduce exclusion arising from KYC constraints and low digital literacy, PSBs adopted outreach programs, temporary KYC relaxations (within RBI guidelines) and door-step services through BCs. However, banks had to balance financial integrity (AML/KYC) with ease of access- a persistent tension.

Outcomes: Evidence from Secondary Data

This section compiles key observable outcomes from secondary sources.

Account ownership and deposits

PMJDY statistics show continued growth in account numbers and deposit balances, with PSBs holding a dominant share of beneficiary accounts. The PMJDY portal and central reports point to significant deposits mobilized in beneficiary accounts, which provided a stable conduit for welfare transfers and savings accumulation during the pandemic recovery phase.

Credit flow to MSMEs and use of ECLGS

ECLGS operational guidelines and impact assessments show that the scheme materially increased credit availability to MSMEs when private risk appetite was constrained. Industry reports (including NIBM and CARE tracking) show PSBs as major participants in sanctions and disbursements under the scheme. While ECLGS mitigated short-term liquidity shortages, longer-term credit quality and repayment capacity remained concerns for some sub-segments.

Preservation of borrower relationships via moratoria and restructuring

RBI circulars and analyses (NIBM working papers) indicate that moratoria and restructuring facilities helped prevent immediate spikes in NPAs and preserved clients' access to formal finance, a critical component of inclusion. However, these forbearances were transitional- and subsequent asset quality monitoring and corrective measures were necessary.

Digital payments uptake and platform developments

The pandemic accelerated the adoption of digital payments. The central bank and industry discourse emphasise new digital public infrastructures (Account Aggregator, ULI) and product designs for feature phones to deepen inclusion. Reports note significant growth in UPI and mobile payments volumes, and policy initiatives to harness this momentum for credit and savings products.

Differential performance: urban-rural and gender aspects

Secondary data indicates improvement in absolute numbers of accounts and female beneficiaries, but persistent differentials remain: rural and remote areas continue to face access constraints (connectivity, agent density), and women face higher barriers to active usage despite account ownership. PMJDY disaggregated statistics indicate continuing efforts to onboard rural and female beneficiaries, but usage metrics (transactions per account) remain uneven.

Discussion: Strengths, Weaknesses and the Role of PSBs

Strengths and comparative advantages of PSBs

- **Outreach and physical presence:** PSBs' extensive branch networks in rural and semi-urban locations and established BC relationships allowed them to maintain service continuity when private players withdrew from low-margin segments.
- **Scheme implementation capability:** As agents of government schemes (PMJDY, DBT, ECLGS), PSBs were natural administrators- rapidly disbursing benefits and emergency credit.
- **Public policy alignment:** PSBs were more responsive to policy mandates aimed at inclusion, making them indispensable partners in the nationwide inclusion strategy. Evidence from scheme disbursal shares and PMJDY account distributions supports this role.

Weaknesses and operational constraints

- **Operational inefficiencies and legacy costs:** PSBs faced challenges in scaling efficient digital services at the same speed as nimble private entities due to legacy IT systems and higher operational overheads.
- **Risk management vs inclusion trade-offs:** Expanding lending to riskier segments (supported by guarantees) can raise longer-term asset quality concerns. While guarantee schemes like ECLGS mitigated short-term risk, longer-term credit sustainability requires attention.
- **Digital divide and literacy gaps:** Rapid digitalisation risks excluding those without smartphones, reliable connectivity, or digital literacy; PSBs need tailored low-tech solutions for inclusion.

Policy coherence and complementarity

The success of inclusion depends on coordinated policy action- combining liquidity support, targeted guarantees, digital public goods, and on-ground agent networks. Secondary evidence suggests India's policy mix achieved partial success: short-term exclusion was averted, and inclusion platforms (PMJDY, UPI) strengthened; but systemic challenges remain for converting account ownership into active, meaningful financial access.

Case Study: State Bank of India (SBI)

SBI, India's largest PSB, played a critical role in financial inclusion during and after Covid-19.

- **Digital Reach:** YONO user base crossed 60 million post-pandemics, simplifying digital access for first-time users.
- **Jan Dhan Accounts:** SBI managed nearly one-third of total JDY accounts, ensuring uninterrupted DBT disbursement.
- **Support to MSMEs:** Under ECLGS, SBI disbursed substantial emergency credit, helping revive small businesses.

- **Rural Access:** Expanded BC network with over 70,000 CSPs enabling AePS withdrawals during mobility restrictions.
- **Financial Literacy:** Conducted virtual camps for farmers, SHGs, and senior citizens to increase awareness of digital services**.**

Outcome: SBI's initiatives significantly reduced service disruption, promoted digital migration, and enabled large-scale welfare transfers, strengthening its role in inclusive banking

Challenges Identified

From the cited documents and analyses, the major challenges are:

1. **Sustainability of credit to high-risk segments:** Guarantee schemes enabled lending but did not fully address credit underwriting, monitoring and eventual repayment issues for the riskiest segments. Evidence from scheme performance analyses highlights this tension.
2. **Digital & infrastructural exclusion:** Despite policy nudges for low-bandwidth solutions, access gaps for feature-phone users and areas with poor internet persist. The RBI and industry commentary recommends apps and product re-design for feature phones.
3. **KYC and identity barriers:** Stringent KYC rules- necessary for AML/CFT- can create friction for marginalized users. Temporary KYC relaxations were used, but long-term solutions balancing integrity and access are necessary.
4. **Agent network reliability and viability:** Business Correspondent networks are crucial, but maintaining economic viability and service quality in remote areas is challenging. PSBs must ensure appropriate incentives and oversight.
5. **Gender and usage gaps:** Account ownership for women increased under PMJDY, but active usage and access to credit remain lower for women-secondary data signals the need for targeted interventions.

Policy and Practice Recommendations

Based on synthesis of secondary sources and observed gaps, the following recommendations are proposed for strengthening policies and PSB practices around financial inclusion in the post-COVID phase.

Strengthen digital public infrastructure with low-tech design

- Support and mandate development of low-bandwidth, feature phone-compatible banking applications and USSD-based interfaces for basic transactions, account information and grievance redressal. The RBI has encouraged such approaches; PSBs should prioritize rollouts in rural launches.

Institutionalize blended credit risk frameworks

- Combine targeted guarantee schemes with credit-enhancement instruments, structured risk-sharing, and capacity building for MSMEs to improve long-term repayment capacity rather than rely solely on temporary guarantees. ECLGS-like schemes are valuable but need complementary capacity building.

Enhance agent network economics and oversight

- Improve BC remuneration models and performance monitoring; use micro-franchising and local partnerships to ensure service continuity and reliability in remote regions. Train BCs in digital onboarding and grievance handling.

Push for active account usage, not just ownership

- Incentivize transaction usage through micro-savings goals, recurring payments (utility linkage), and product bundling (micro-insurance, recurring deposits), plus targeted financial literacy campaigns (especially for women). PMJDY growth must be complemented with usage metrics.

Balance KYC integrity with access via tiered KYC

- Continue and formalize tiered KYC approaches (with risk-based limits) and digital identity linkage while strengthening AML oversight through technology (behavioural analytics) to reduce exclusion without compromising compliance.

Strengthen data-driven credit assessment (Account Aggregators / ULI)

- Leverage Account Aggregator architecture and Unified Lending Interface to access consented, comprehensive financial data for credit under-writing. This can reduce reliance on collateral and improve credit outreach to the formally excluded. PSBs should integrate these tools into lending workflows as they develop.

Conclusion

The post-COVID-19 policy landscape in India combined immediate relief (moratoria, liquidity measures), targeted emergency lending support (ECLGS), and an accelerated push toward digital, platform-based financial infrastructure. Public sector banks, owing to their outreach and public-policy mandate, were central to translating these measures into inclusive outcomes: administering PMJDY and DBT flows, disbursing emergency credit via ECLGS, implementing moratoria and restructuring, and scaling BC networks. Secondary evidence suggests these actions prevented large-scale exclusion and preserved inclusion gains. Yet, secondary sources also reveal persistent structural challenges- the digital divide, KYC frictions, the sustainability of credit to high-risk segments, and the need to convert account ownership into active financial engagement. Moving forward, a policy mix that marries digital public goods (ULI, Account Aggregators), low-tech product design, blended credit risk solutions and strengthened agent economics can help PSBs consolidate pandemic-era gains into resilient, long-term financial inclusion.

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