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RESEARCH ARTICLE

FINANCIAL INCLUSION AND HOUSEHOLD SAVINGS BEHAVIOUR IN SEMI-URBAN INDIA

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Abstract

Financial inclusion in semi-urban India has raised the share of households that save, but it has changed where they save much more slowly than whether they save. Semi-urban centres, defined by the RBI as towns with a population of 10,000 to under 1 lakh, held 46,475 of India's 1,64,310 bank branches (28.3%) in March 2025. Most of the 59.09 crore Jan Dhan accounts are in rural and semi-urban areas (77.8% in the two combined). NABARD's All India Rural Financial Inclusion Survey (NAFIS), which covers rural areas and towns of up to 50,000 people, found that the share of households that saved rose from 50.6% in 2016–17 to 66% in 2021–22, and average annual financial savings rose from ₹9,104 to ₹13,209 per household. Insurance coverage jumped from 25.5% to 80.3% of households. Yet household wealth in India remains dominated by physical assets (77% real estate and 11% gold, against 5% financial assets for the average household), the share of households in debt also rose (47.4% to 52%), and many accounts stay dormant. Drawing on RBI, NABARD, Ministry of Finance and World Bank data and on the research literature, this paper argues that inclusion affects savings through four channels: safe storage, lower transaction costs, access to formal savings and insurance products, and financial literacy. Account access mainly strengthens the first two; the last two, where semi-urban households are still weakest, decide whether savings shift from gold, cash and informal schemes to productive financial assets. The paper ends with policy recommendations.

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Introduction:-

Semi-urban India, the small towns and large villages between the countryside and the cities, is where the effect of financial inclusion on saving is easiest to see and hardest to measure. These towns usually have bank branches, ATMs and business correspondents, unlike many villages. But their households often have irregular incomes from small trade, services, farming and daily-wage work, and they still rely on gold, cash, chit funds and moneylenders. They are therefore at the frontier between formal and informal finance. Since the launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY) on 28 August 2014, India has pursued financial inclusion through bank accounts, Aadhaar-based identification, mobile phones and digital payments (the JAM trinity), backed by government micro-insurance

and pension schemes. The central question of this paper is whether this expansion has changed how semi-urban households save: how much they save, in what form, and for what purpose.

Research Questions:-

1. What is the current level of financial inclusion in semi-urban India in terms of branches, accounts, deposits and digital payments?
2. How do semi-urban and rural households save, and how has this changed since 2016–17?
3. Through which channels does financial inclusion affect household savings behaviour?
4. What barriers prevent access from turning into formal, productive savings, and how can policy address them?

Hypothesis:-

Financial inclusion increases the likelihood that a household saves and the share of savings held in formal instruments, but the effect on the composition of savings depends on financial literacy, trust, and the suitability of the products offered.

Scope:-

The study focuses on semi-urban India, using rural-and-semi-urban data where separate figures are not published. The main period is 2016–17 to 2026. Indian financial years run from April to March. Amounts are in Indian rupees; 1 lakh = 100,000 and 1 crore = 10 million.

Literature Review:-

Theory and evidence agree that low-income households want to save, and that the main obstacles are the cost, safety and design of the savings tools available to them, not a lack of willingness.

Savings theory. Keynes (1936) linked saving to current income, while the life-cycle hypothesis (Modigliani and Brumberg, 1954) and the permanent income hypothesis (Friedman, 1957) argued that households save to smooth consumption over their lives and across good and bad years. Deaton (1991) showed that households facing borrowing constraints and uncertain incomes save as a buffer against shocks. This precautionary motive is especially relevant for semi-urban households with irregular earnings.

How poor households actually manage money. Collins, Morduch, Rutherford and Ruthven (2009), in *Portfolios of the Poor*, used financial diaries from India, Bangladesh and South Africa to show that poor households use many financial tools at once, mostly informal ones, and that the problem is unreliability rather than a lack of activity. Banerjee and Duflo (2007) documented how little the poor hold in formal financial assets.

Does access raise saving? Burgess and Pande (2005) found that India's rule requiring banks to open branches in unbanked rural locations between 1977 and 1990 was associated with reduced rural poverty, with savings mobilisation as one channel. Field experiments show that simple savings tools matter: Ashraf, Karlan and Yin (2006) found that a commitment savings account in the Philippines raised savings, and Dupas and Robinson (2013) found that access to a basic savings account in Kenya raised savings and investment among market vendors, mostly women. Karlan, Ratan and Zinman (2014) reviewed this evidence and concluded that the effects are real but vary with product design and fees.

Evidence from India's Jan Dhan programme. Agarwal, Alok, Ghosh, Ghosh, Piskorski and Seru (2017) studied account-level data on 255 million PMJDY accounts. About 77% of the accounts maintained a positive balance; usage was initially infrequent but gradually converged towards that of already-banked households with similar characteristics (ISB ePrints). They also found more lending, and more defaults on new loans, in regions more exposed to the programme.

Composition of Indian household wealth. The RBI's Household Finance Committee (2017) reported that the average Indian household holds 77% of its wealth in real estate, 7% in durable goods, 11% in gold and only 5% in financial assets, and attributed this partly to low trust and the high transaction costs of formal products (IndiaSpend; Kotak Securities).

Gap. Most Indian studies treat "rural" and "urban" as two groups. Semi-urban centres, which sit between them and are where many new branches and business correspondents are located, receive little separate attention. This paper brings together the available evidence for that group.

A. 3. Methodology, Definitions and Data

This is a descriptive and analytical study based on secondary data and published research; no primary survey was conducted.

Defining "semi-urban". The RBI classifies the centre where a bank branch is located by its population in the 2011 Census: rural (under 10,000), semi-urban (10,000 to under 1 lakh), urban (1 lakh to under 10 lakh) and metropolitan (10 lakh and above) (RBI, BSR-2 March 2026). NABARD's NAFIS uses a different boundary: it covers rural areas

and Tier-3 to Tier-6 centres with a population below 50,000, so its "semi-urban" households are the smaller semi-urban towns (AffairsCloud summary of NAFIS 2021–22).

This difference is kept in mind throughout:-

Dimension	Indicator	Source	Period
Banking access	Branches by population group	RBI (via Dataful)	March 2025
Deposits	Deposit growth by population group	RBI Basic Statistical Returns	March 2025, June 2026
Accounts	PMJDY accounts, deposits, women and rural/semi-urban shares	Ministry of Finance	August 2026
Overall inclusion	RBI FI-Index	RBI	March 2026
Account usage	Ownership and inactive accounts	World Bank Global Findex 2025	2024 survey
Savings, debt, insurance, literacy	Household survey of 1 lakh households	NABARD NAFIS 2016–17 and 2021–22	2021–22
Wealth composition	Shares of real estate, gold, financial assets	RBI Household Finance Committee	2017
National savings trends	Household financial savings	RBI, Ministry of Finance	FY25

Approach. The paper first describes the state of inclusion and of savings, then builds a framework of the channels linking the two, and tests that framework against the changes recorded between NAFIS 2016–17 and 2021–22. Because both surveys are cross-sections and many policies changed at the same time, the analysis identifies associations, not proven cause and effect.

The State of Financial Inclusion in Semi-Urban India:-

Semi-urban India is now well served by bank infrastructure; the gap lies in how deeply the accounts are used.

Bank branches:-

Population group (centre population, 2011 Census)	Branches, 31 March 2025	Share of all branches
Rural (under 10,000)	56,192	34.2%
Semi-urban (10,000 to under 1 lakh)	46,475	28.3%
Urban (1 lakh to under 10 lakh)	30,140	18.3%
Metropolitan (10 lakh and above)	31,503	19.2%
Total	1,64,310	100%

Source: RBI data via Dataful; shares calculated by the author.

Semi-urban centres have more bank branches than urban or metropolitan centres. Expansion has been led by public sector banks: in FY25, 67.3% of their new branches were in rural and semi-urban centres, against 37.5% for private banks, and 79.4% of white-label ATMs were in rural and semi-urban centres (Business Standard, citing the RBI's Trend and Progress report).

Deposits:-

Semi-urban deposits have grown steadily but more slowly than metropolitan deposits over the long run. Between 2000 and 2025, semi-urban deposits grew about 22 times, compared with 20 times for rural, 26 times for urban and 36 times for metropolitan branches (C4S, summarising RBI data). In March 2025, semi-urban deposits grew 8.9% year on year against 11.7% for metropolitan branches (RBI BSR-2 March 2025). The trend has recently reversed: in June 2026, deposit growth at semi-urban and rural branches outpaced growth at the aggregate level (RBI, Quarterly BSR-2 June 2026).

Accounts and the JAM trinity:-

PMJDY is the main channel of account inclusion in smaller centres. As of 19 August 2026 there were 59.09 crore PMJDY accounts with deposits of ₹3,16,514 crore; 45.95 crore accounts (77.8%) were in rural and semi-urban areas, 32.92 crore (55.7%) were held by women, and the average balance was ₹5,356 (Indian Masterminds, citing the Ministry of Finance; New Kerala). Deposits in these accounts have risen from ₹15,670 crore in March 2015 (IANS), which suggests the accounts are increasingly used to hold savings, not only to receive benefits. Across all

banks, basic savings bank deposit accounts numbered 72.4 crore at end-March 2025, with balances of ₹3.3 lakh crore (Free Press Journal).

Overall inclusion and usage:-

The RBI's Financial Inclusion Index rose to 70.0 in March 2026 from 67.0 a year earlier, mainly because of higher usage (RBI). However, the World Bank's Global Findex 2025 found that while India's account ownership is at or close to 90%, about 16% of account owners have no active account, compared with an average of 4% in other low- and middle-income economies (Vision IAS summary).

Household Savings Behaviour in Semi-Urban and Rural India:-

More households in smaller centres now save, and they save more in rupee terms, but borrowing has risen alongside saving.

Evidence from NAFIS:-

Indicator (rural and semi-urban households, centres under 50,000 people)	2016–17	2021–22
Average monthly household income	₹8,059	₹12,698
Average monthly household expenditure	₹6,646	₹11,262
Average annual financial savings per household	₹9,104	₹13,209
Households that reported saving	50.6%	66.0%
Households with outstanding debt	47.4%	52.0%
Households with at least one member insured	25.5%	80.3%
Households with at least one member receiving a pension	18.9%	23.5%
Respondents with good financial literacy	33.9%	51.3%
Share of food in consumption	51%	47%

Sources: NABARD press note; Krishi Jagran; PIB factsheet. NAFIS 2021–22 surveyed 1 lakh households and was released on 9 October 2024.

Three patterns stand out. First, the share of households saving rose by more than 15 percentage points, a larger change than the rise in average savings, which grew about 45% in nominal terms while income grew 57.6% and spending 69.5%. Second, insurance spread very fast, largely through low-premium government schemes linked to bank accounts. Third, saving and borrowing rose together, which is consistent with households using formal accounts both to save and to access credit.

Agricultural versus non-agricultural households. 71% of agricultural households saved in 2021–22, against 58% of non-agricultural households (Civildaily). Non-agricultural households, who dominate semi-urban towns through trade, services and wage work, are therefore less likely to save than farm households in this survey.

State variation. Saving rates differ sharply between states: Uttarakhand (93%), Uttar Pradesh (84%) and Jharkhand (83%) had the highest shares of saving households, while Goa (29%), Kerala (35%), Mizoram (35%), Gujarat (37%), Maharashtra (40%) and Tripura (46%) were below 50% (AffairsCloud). Several of the low-saving states are among the more urbanised and higher-income states, a reminder that survey-reported "saving" depends on how households define and remember it.

Where savings are kept. In the previous round (NAFIS 2016–17), 94% of reported savings were held with institutional agencies such as banks, post offices and insurers (The Wire). Survey-reported financial savings, however, do not capture gold, cash at home and chit funds, which matter a great deal in smaller towns.

Wealth composition: the pull of physical assets:-

The average Indian household holds 95% of its wealth in physical assets (77% real estate, 7% durables and 11% gold) and only 5% in financial assets (IndiaSpend, citing the Household Finance Committee). The committee also found that only about 23% of households were saving or planning to save for retirement. For semi-urban families, gold is both a store of value and a source of quick credit through gold loans, which makes it a direct competitor to bank savings.

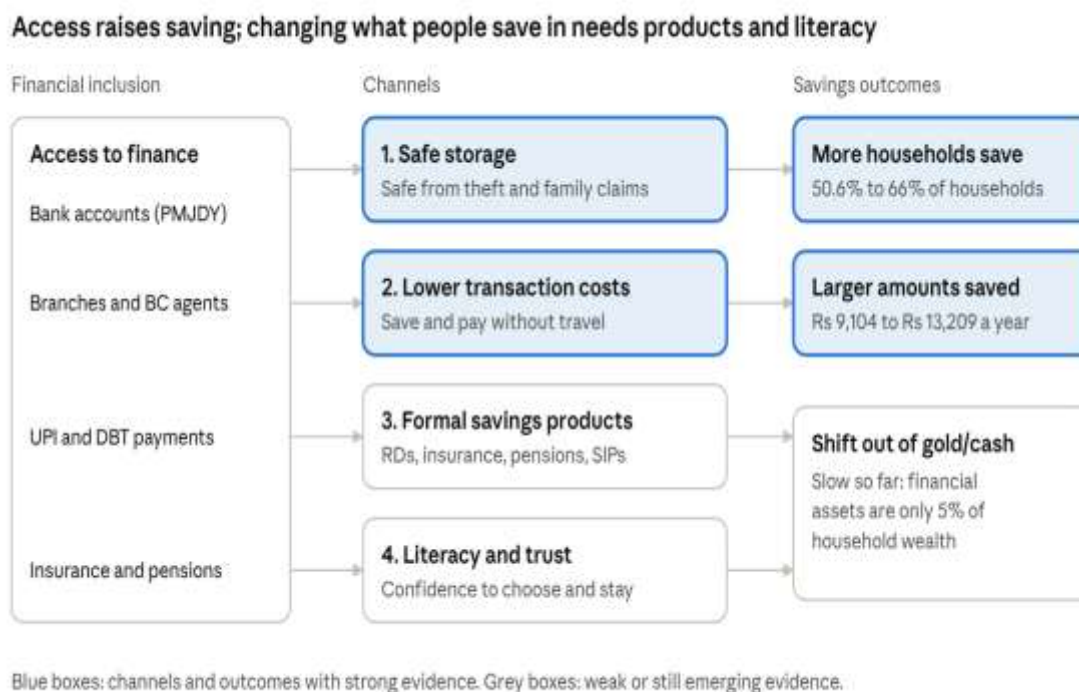
National trend: a slow shift to financial assets:-

At the national level, household savings are moving away from bank deposits. Market-linked instruments formed a record 15.1% of household financial assets acquired in FY25 (8.7% in FY24), while the share of bank deposits fell to 35.2% (IANS, citing RBI data). Separate data for semi-urban households are not published, but the AMFI Annual

Report FY26 notes that SIP assets make up more than 40% of mutual fund assets in several states with large small-town populations, including Uttar Pradesh, Himachal Pradesh and Haryana (Cafemutual).

The Relationship Between Financial Inclusion and Savings:-

The evidence supports the hypothesis in part: inclusion is clearly associated with more households saving and larger amounts saved, but it has so far done less to change what households save in.



Conceptual framework: 4 channels, 3 outcomes. Figures from NAFIS 2016-17 and 2021-22 and the RBI Household Finance Committee (2017)

Channel 1: safe storage:-

For a semi-urban household, cash at home is exposed to theft, to small daily spending and to requests from relatives. A bank account offers a safer place. The fact that about 77% of early Jan Dhan accounts kept a positive balance, and that usage gradually converged towards that of already-banked households (Agarwal et al., 2017), is consistent with this channel. The rise of PMJDY deposits to ₹3.17 lakh crore by August 2026, with an average balance of ₹5,356, shows accounts being used as stores of value rather than only as pipes for benefits.

Channel 2: lower transaction costs:-

The RBI's Household Finance Committee noted that opening a bank account could cost a poor household a full day's earnings (Kotak Securities summary). The dense branch network in semi-urban centres (46,475 branches), business correspondents, UPI and Direct Benefit Transfer have lowered these costs. When income such as wages or subsidies arrives directly in an account, part of it tends to stay there, which turns access into saving with little extra effort from the household.

Channel 3: formal savings and protection products:-

The jump in insurance coverage from 25.5% to 80.3% of households, and in pension coverage from 18.9% to 23.5% (NAFIS), shows that products bundled with accounts can spread quickly when they are cheap and simple. Insurance also supports saving indirectly: households protected against health or accident shocks need to hold fewer precautionary reserves in cash or gold and are less likely to sell assets after a crisis. However, voluntary long-term products such as recurring deposits, mutual funds and voluntary pensions have spread more slowly.

Channel 4: financial literacy and trust:-

Financial literacy rose from 33.9% to 51.3% of NAFIS respondents, and semi-urban respondents scored better than rural ones on financial knowledge (66% against 58%) (PIB factsheet). The literature (Section 2) suggests literacy is what moves households from simply holding money in an account to choosing higher-return or longer-term products. With financial assets still about 5% of household wealth, this channel remains the weakest link.

Interpretation:-

The pattern fits the precautionary savings model: semi-urban households with irregular incomes value safe, liquid storage first. Inclusion has supplied that. Moving beyond it requires trust in products whose value can fall (such as mutual funds), and convenience that can match gold's role as instant collateral. The simultaneous rise in debt (47.4% to 52% of households) also suggests that accounts have improved access to formal credit, as Agarwal et al. (2017) found, which can either support saving (by replacing costly informal loans) or erode it (through over-borrowing).

Barriers and Gaps:-

Five barriers explain why access has not yet translated fully into formal, long-term saving in semi-urban India.

1. **Dormant and low-balance accounts.** Global Findex 2025 found that about 16% of Indian account owners have no active account, four times the average for other low- and middle-income economies. The World Bank's earlier analysis linked India's high inactivity partly to accounts opened under PMJDY and to people having no need or not enough money to use an account (Vision IAS). An average PMJDY balance of ₹5,356 is meaningful for a poor household but small as a long-term savings base.
2. **Gaps in financial literacy.** Even after the improvement, about half of NAFIS respondents did not show good financial literacy. Without it, households struggle to compare products, understand interest and inflation, or judge the risk in market-linked investments.
3. **The pull of gold, cash and informal schemes.** Gold offers liquidity, cultural value and easy collateral, and informal chit funds offer flexible and social saving. Formal products must compete on convenience and trust, not only on returns. The RBI's Household Finance Committee identified low trust in financial firms and a sense of "less control" over financial assets as reasons households prefer gold (Kotak Securities summary).
4. **Irregular incomes and rising debt.** Semi-urban incomes from small business, services and casual work are uneven, which makes fixed monthly commitments such as recurring deposits or SIPs hard to sustain. The share of NAFIS households with outstanding debt rose to 52%; when debt service grows faster than income, it reduces the capacity to save.
5. **Gender gaps in control and use.** Women hold 55.7% of PMJDY accounts. However, owning an account is not the same as controlling it: in the World Bank's 2021 data, 42% of Indian women account holders had inactive accounts, against 30% of men (Vision IAS).
6. **There is also a data gap:** national statistics rarely separate semi-urban households from rural or urban ones, and the RBI and NABARD use different population thresholds, which makes it difficult to track the savings of this group precisely.

Policy Recommendations:-

The policy goal should shift from opening accounts to making formal saving the easiest and most trusted choice for semi-urban households.

1. **Design products for irregular incomes.** Offer flexible recurring deposits and small-ticket mutual fund SIPs (such as the ₹250 SIP framework proposed by SEBI in January 2025) that allow skipped or variable instalments without penalties, linked to UPI AutoPay and to PMJDY accounts.
2. **Use the moment money arrives.** Give households the option to move a fixed share of each DBT payment or wage credit automatically into a separate savings or recurring-deposit account, building on the evidence that commitment and default features raise saving (Ashraf, Karlan and Yin, 2006).
3. **Make gold savings financial.** Promote digital gold, gold ETFs and gold deposit schemes through local banks so that households can keep the security of gold while earning returns and avoiding the risks of holding it at home.
4. **Bring financial education to where people are.** Run regular literacy camps through branches, business correspondents, self-help groups and schools in semi-urban towns, in local languages, focusing on inflation, compound interest, insurance and fraud prevention.
5. **Strengthen women's control of accounts.** Train women account holders in using accounts and UPI on their own, route women-focused benefits into their own accounts, and work through women's self-help groups.
6. **Protect against over-indebtedness.** As formal credit reaches new borrowers, require clear disclosure of loan costs and strengthen grievance redress, so that access to credit does not undermine saving.

7. **Improve semi-urban data.** Publish savings, deposit and account-activity data separately for semi-urban centres, and harmonise the population thresholds used by the RBI and NABARD, so that progress can be measured directly.

Conclusion and Limitations:-

Financial inclusion has made semi-urban India a place where more households save, and save more, in formal institutions; the unfinished task is to change what they save in. Semi-urban centres now host 28.3% of India's bank branches, most Jan Dhan accounts are in rural and semi-urban areas, and the RBI FI-Index has reached 70.0. Over the same period, the share of NAFIS households that saved rose from 50.6% to 66%, annual financial savings per household rose by about 45%, and insurance coverage more than tripled.

These gains fit the first two channels of the framework in Section 6: safe storage and lower transaction costs. The third and fourth channels, suitable products and financial literacy and trust, are still weak, which is why household wealth remains concentrated in real estate and gold and why many accounts remain dormant. The hypothesis is therefore partly supported: inclusion raises the incidence and level of saving, while its effect on the composition of savings depends on literacy, trust and product design. Policy should now focus on products built for irregular incomes, automatic saving at the moment income arrives, financial routes to gold, women's control of accounts, and better semi-urban data.

Limitations:-

This paper uses secondary data and descriptive analysis, so it identifies associations rather than proven causes; many policies and the COVID-19 shock changed household finances at the same time. NAFIS covers centres of up to 50,000 people, whereas the RBI defines semi-urban as 10,000 to under 1 lakh, so the two sources describe overlapping but not identical populations. Survey measures of saving rely on what households report and exclude most gold and cash holdings. The Household Finance Committee figures date from 2017. Some figures were taken from reputable summaries of official releases rather than the releases themselves. Future research could use a primary survey in selected semi-urban towns, comparing households by account activity, to estimate the effect of inclusion on savings directly.

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