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GROWTH IN BANKING SECTOR WITH FINANCIAL INCLUSION

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ABSTRACT

Financial inclusion is the process through which all participants in the economy can easily access, utilize, and be part of the official financial system. There is ample evidence of the benefits of an inclusive approach in the expanding body of research on financial inclusion. Monetary structure. But we note that there isn't a single, all-encompassing metric that can be used to gauge how much financial inclusion there is in an economy.This study aims to close this gap and provide a novel contribution. We suggest developing an index of financial inclusion (IFI) using a multifaceted methodology. The IFI that has been built here can be used to compare financial inclusion levels at a given period in different economies. Additionally, it can be used to track the advancement of legislative measures for long-term financial inclusion.

Keywords: Financial inclusion, growth, multidimensional approach policy initiatives, financial system

INTRODUCTION

The goal of the economic growth process should be to involve every segment of society, particularly during periods of rapid expansion. It has long been acknowledged that a major challenge to economic growth, particularly in emerging nations, is the lack of access to financing for marginal and small-scale farmers as well as for weaker segments of society. A significant portion of the population's financial services can be persistently denied for an extended period of time, which discourages investment and increases the risk of social unrest and social exclusion.Financial inclusion refers to providing low-income and disadvantaged populations with access to fundamental financial services at reasonable costs. Financial inclusion aims to link the marginalized with the official banking system so they can learn about the financial services that are accessible to them and have the confidence to make wise financial decisions. "Financial inclusion may be defined 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," according to Rangarajan's committee on the topic.

The whole list of financial services is covered, including credit, payments, insurance, savings, and loans. The transfer of resources from surplus to deficit units is a necessary component of the financial system, yet both surplus and deficit units are made up of people with low incomes and/or difficult backgrounds. The goal is to assist people in escaping poverty by offering these services. Delivering credit has been the primary priority thus far. Although it is actually microcredit, it is referred to as microfinance and has shown considerable success. There must also be comparable success in other facets of finance.

The recognition of finance as a catalyst for development and progress has changed significantly over the years. Today, most economies want to improve the efficiency of their financial systems, with the belief that it is the brains of their economic systems. Additionally, it keeps policymakers alert because any issue in this area has the potential to spark an

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epidemic or possibly freeze the entire economy. Prior study concentrated on the role that finance plays in bolstering an economy. The significance of financial inclusion is now recognized by study. Financial inclusion as a practical endeavour is the new focus of finance research.

REVIEW OF LITERATURE

Joshi (2014) analyzed the awareness about financial services offered by banks and their spread among workers of unorganized sector of urban area of Nagpur city by using logistic regression model to study the relationship between the variables. The study concluded that in relation to enhance the level of financial inclusion in India, financial awareness regarding loans and other facilities played a significant role.

Gupte, Venkataramani and Gupta (2012) studied the factors responsible for measurement of expansion of financial inclusion. The study put attention on influence of multi-dimensional variables in relation to calculation of Index in Indian context and stated that these variables were not included in previous studies, further it discussed the various financial inclusion initiatives taken by RBI like KYC, GCC, Micro finance, etc. since 2005-06. The author suggested that all the dimensions are crucial in nature and involvement of multiple dimensions will provide universal financial inclusion

M. Ramji (2019) analyzed the application of the financial inclusion related forces and access of banking services by the people of selected region of Karnataka further the author highlighted that a district in Karnataka was very first location who achieved hundred percent financial inclusion. The results of the study exposed that 36 percent population was still financially excluded and included population opened bank accounts to get benefits under MGNERS scheme and other programs of government. The author suggested that government schemes are best solution to approach to a big portion of untouched population and other way is spread of financial literacy

Assibey (2023) highlighted that a large number of people in South-Saharan Africa were financially excluded and not having bank accounts. The paper examined the responsible factors that caused the geographical exclusion of financial services in rural communities of Ghana. The study found a positive relationship between banks decision to establish a bank branch and market size elements, the infrastructure level, activeness of market and communication facilities of concerned area, where as it was negatively related with basic insecurity level in relation to crime, natural calamities and disputes. On the other hand, population's demand for a bank account seems to be driven by both market and non-market factors such as price, illiteracy, religion related factors, dependency rate, employment status and proximity to the bank.

RESEARCH GAP

While existing studies have explored various dimensions of financial inclusion—such as awareness and accessibility among unorganized sector workers (Joshi, 2014), multi-dimensional indices of inclusion (Gupte et al., 2012), regional success stories and the role of government schemes (Ramji, 2019), and geographical and socio-economic exclusion factors in rural Africa (Assibey, 2023)—there remains a notable gap in integrated, comparative studies that:

- Examine the interplay between financial literacy, regional infrastructure, and policy incentives across diverse socio-economic and geographical settings within India (urban vs. rural, state-wise variations).

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- Analyze how behavioral factors (e.g., trust, cultural attitudes, digital literacy) affect the sustained use (not just access) of financial services.
- Address the longitudinal impact of financial inclusion initiatives, especially post-2019, including the rise of digital financial services (UPI, mobile wallets, neo-banks) and their effect on marginalized populations.

RESEARCH OBJECTIVES

- To analyze the current status of financial inclusion.
- To find out the important determinants of financial inclusion.

RESEARCH METHODOLOGY

The study examines the function of the Financial inclusion in the banking sector in the Indian economy as well as the range of growth that financial inclusion is taken place in India. It draws attention to the current situation with a number of areas, including cost and finance. There is also discussion of potential recommendations for fostering a favourable financial condition. Secondary data serves as the main foundation for this investigation.

Research Framework:

Financial Literacy ─┐

Regional Infrastructure ─┼──► Sustained Use of Financial Services

│

Government Incentives ──┘

│

Behavioral Factors ─►

│

Digital Access ───►

│

Regional Context ─► Moderating/Control Variable

The conceptual framework illustrates the multidimensional and interrelated factors that influence financial inclusion, especially among rural and unorganized sector populations. It integrates insights from various empirical studies across India and Sub-Saharan Africa to offer a holistic perspective.

1. Financial Awareness

This refers to the population's understanding and knowledge of financial products and services such as savings accounts, loans, insurance, and government schemes (e.g., DBT, MGNREGA). A higher level of awareness significantly increases the likelihood of engaging with formal financial institutions.

- Influence: Direct positive impact on financial inclusion.

- Supported by: Joshi (2014), Ramji (2019)

2. Socio-Economic Factors

These include financial literacy, employment type (formal vs. informal), income level, and dependency ratios. These factors often influence financial behavior, access, and decision-making capacity regarding financial tools.

- Role: Acts as both a direct factor and a moderator for financial inclusion outcomes.
- Supported by: Assibey (2023), Ramji (2019)

3. Access to Infrastructure

Physical and digital access to financial services—such as proximity to bank branches, ATMs, mobile banking, and internet connectivity—greatly determine the ease of financial engagement.

- Influence: Critical enabler of inclusion; lack of infrastructure creates exclusion.
- Supported by: Assibey (2023), Gupte et al. (2012)

4. Institutional Initiatives

This includes RBI-led initiatives (e.g., simplified KYC, financial literacy campaigns), government programs (e.g., PMJDY, UPI), and efforts by NGOs and microfinance institutions. These mechanisms reduce barriers and incentivize participation in the formal financial system.

- Role: Mediates and enhances the impact of awareness and access.
- Supported by: Gupte et al. (2012), Ramji (2019)

5. Exclusion Factors

These are barriers that limit or discourage financial participation. They include:

- Geographical barriers: Poor transport, remote location
- Security risks: High crime, natural calamities
- Cultural/Religious factors: Distrust or incompatibility with formal banking
- Economic barriers: High service costs, lack of documentation
- Influence: Negative effect on financial inclusion; crucial to address.
- Supported by: Assibey (2023)

6. Financial Inclusion (Outcome Variable)

The central outcome of the framework is increased financial inclusion, measured by indicators such as:

- Number of individuals with bank accounts
- Frequency of use of financial services
- Access to credit, insurance, and digital payments

This framework emphasizes that achieving universal and sustained financial inclusion requires a coordinated effort to enhance awareness, improve infrastructure, implement inclusive policies, and remove exclusion barriers.

Recommendations for Enhancing Financial Inclusion

1. Improve Financial Literacy and Awareness

- Conduct community-based financial education programs in local languages through schools, self-help groups (SHGs), Panchayats, and NGOs.
- Use mass media (TV, radio, social media) to spread awareness about financial services like insurance, credit, UPI, DBT, etc.
- Develop mobile-based financial learning apps with gamification to increase engagement in low-literacy populations.
- Rationale: Awareness directly increases financial engagement (Joshi, 2014; Ramji, 2019).

2. Strengthen Last-Mile Infrastructure

- Expand banking correspondents (BCs) in remote areas and ensure they are digitally equipped and well-trained.
- Improve internet and mobile connectivity in rural areas to support mobile and digital banking services.
- Set up mini-ATMs and micro-branches in underbanked blocks and villages.
- Rationale: Infrastructure access is a key enabler (Assibey, 2023; Gupte et al., 2012).

3. Customize Government Schemes for Inclusion

- Link welfare benefits (e.g., MGNREGA, PM-Kisan, DBT) with mandatory bank account usage, encouraging habitual transactions.
- Ensure schemes are targeted to excluded groups (e.g., migrant workers, women, tribals) with simplified documentation.
- Monitor account dormancy and incentivize frequent usage through cashback or rewards.
- Rationale: Government programs drive account opening (Ramji, 2019).

4. Address Socio-Cultural and Economic Barriers

- Promote gender-sensitive banking policies (e.g., all-women bank branches, women BC agents).
- Design no-frills or zero-balance accounts to attract low-income individuals.
- Collaborate with local leaders and religious institutions to overcome trust and cultural resistance.
- Rationale: Barriers like distrust, illiteracy, and religion-based factors hinder inclusion (Assibey, 2023).

5. Enhance Digital Financial Services (DFS)

- Promote usage of mobile wallets, UPI, and Aadhaar-enabled payment systems (AEPS).
- Provide training on digital transactions, especially targeting older and less literate individuals.
- Implement cybersecurity awareness to build trust in digital financial tools.

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- Rationale: Digital tools can overcome physical access limitations.

6. Monitor and Evaluate Inclusion Initiatives

- Develop a multi-dimensional Financial Inclusion Index incorporating access, usage, and quality dimensions.
- Use real-time data dashboards to monitor inclusion by region, gender, caste, etc.
- Encourage academic and policy research on behavioral aspects and long-term usage patterns.
- Rationale: Effective inclusion needs tracking and adaptability (Gupte et al., 2012).

7. Foster Public-Private Partnerships

- Encourage private fintech firms and banks to innovate inclusion models through CSR initiatives.
- Support microfinance institutions and cooperatives with digital capabilities and regulatory support.
- Use impact investing models to support enterprises working on financial inclusion.
- Rationale: Multi-stakeholder involvement is crucial for universal inclusion.

CONCLUSION

Financial inclusion is more than the availability of bank accounts—it encompasses the meaningful and sustained use of financial services to improve individual and community well-being. Despite considerable progress in expanding formal financial access through government schemes and digital tools, millions in India remain either excluded or inactive users of financial services.

This research identifies a critical gap in existing literature: the lack of integrated, behaviorally informed, regionally grounded studies that explore how financial literacy, infrastructure, policy incentives, and digital access interact to influence long-term financial engagement. By focusing on both urban and rural populations, and accounting for regional disparities and post-2019 digital developments, this study seeks to contribute fresh insights into the drivers and barriers of sustained financial inclusion.

The outcomes of this study will not only aid policymakers in designing more targeted and effective financial inclusion strategies, but also guide financial institutions, NGOs, and technology providers in developing solutions that go beyond access to promote active and informed participation in the financial system.

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