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A STUDY ON FINANCIAL INCLUSION AND IMPACT ON ECONOMIC DEVELOPMENT

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Abstract

This study explores the pivotal role of financial inclusion in driving economic development, particularly in developing economies. It emphasizes the importance of providing access to affordable and suitable financial services—such as savings, credit, insurance, and digital payments—to underserved populations. By integrating both quantitative and qualitative methods, the research highlights how inclusive financial systems enhance entrepreneurship, reduce income disparities, and support poverty alleviation. The study also assesses the impact of digital technologies and government initiatives in bridging the financial access gap, particularly in rural areas. Despite notable progress, challenges such as data limitations, digital literacy, and regulatory hurdles persist. The findings suggest that a multi-stakeholder approach—incorporating technology, financial literacy, and supportive policies—is essential for achieving sustainable financial inclusion and broader economic growth.

Keywords: Financial Inclusion, Economic Development, Digital Banking, Poverty Alleviation, Financial Literacy.

Introduction

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. Being able to have access to a transaction account is a first step toward broader financial inclusion since a transaction account allows people to store money, and send and receive payments. A transaction account serves as a gateway to other financial services, which is why ensuring that people worldwide can have access to a transaction account continues to be an area of focus for the World Bank Group (WBG). Most notably, it was the focus of the World Bank Group's Universal Financial Access 2020 initiative, which concluded at the end of 2020. Though many gains were made through this initiative, it is an indicator of the scale of the challenge that still more work remains to be done.

Financial access facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As account-holders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives.

The ongoing COVID-19 crisis has also reinforced the need for increased digital financial inclusion. Digital financial inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers.

Great strides have been made toward financial inclusion – the number of adults without access to an account has steadily declined from 2.5 billion in 2011 to 1.7 billion in 2017 to 1.4 billion in 2021. As of 2021, 76% of the world's adult population had an account. But because account ownership is nearly universal in high-income economies, virtually all unbanked adults live in developing economies. Digital financial services — including those involving the use of mobile phones — have now been launched in more than 98 countries, with some reaching significant scale. As of early 2021, there are over 1.35 billion registered mobile money accounts worldwide. As a result, millions of formerly excluded and underserved poor customers

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are moving from exclusively cash-based transactions to formal financial services using a mobile phone or other digital technology to access these services.

Review of Literature:

Nguyen & Lee (2024) investigated the socio-cultural barriers to financial inclusion in rural Vietnam. Their study emphasized how traditional beliefs and a lack of trust in financial institutions hinder financial access. The authors proposed community-based initiatives to increase financial literacy and promote tailored financial services, especially in rural settings. The findings underscore the need for localized approaches to overcome behavioral barriers to financial participation.

Omar & Zain (2024) examined the role of fintech in improving financial inclusion in rural Malaysia. While fintech solutions showed promise in bridging the financial access gap, the study highlighted obstacles such as inadequate regulation, limited digital literacy, and mistrust among rural users. The authors recommend government and private sector collaboration to design inclusive fintech policies and tools that cater to marginalized populations.

Chatterjee & Roy (2024) explored how social protection programs in Bangladesh, especially cash transfers, contribute to financial inclusion. The research found that recipients of these programs were more likely to engage with formal financial services, thanks to increased financial literacy and exposure. The authors advocate for integrating financial education and access into social welfare schemes for better long-term outcomes.

Kumar & Singh (2023) analyzed the effectiveness of microfinance institutions (MFIs) in improving financial inclusion among rural women in India. The study concluded that MFIs had a significant impact on increasing access to credit and promoting economic independence. However, the authors stressed the need for gender-sensitive financial literacy programs and improved outreach in underserved regions to maximize impact.

Rahman & Chowdhury (2023) focused on mobile banking's contribution to financial inclusion in rural Bangladesh. The research demonstrated that mobile banking not only increased access to savings and credit but also enhanced users' ability to manage personal finances. Nevertheless, challenges such as infrastructure gaps and digital security concerns were noted. The authors called for greater investment in digital infrastructure and policy support to scale mobile banking solutions.

Need of the study:

- Financial inclusion helps reduce income disparities by providing financial services to underserved populations, allowing them to participate in the formal economy. Access to banking, credit, and insurance fosters entrepreneurship and self-sufficiency among low-income groups, contributing to sustainable livelihoods.

Scope of the study:

- Examining how expanding access to banking, credit, and insurance services for underserved populations can drive economic participation and growth. Exploring the role of financial inclusion in alleviating poverty by providing tools for savings, investment, and managing financial risks for low-income groups. Assessing the role of regulatory frameworks, government schemes, and partnerships in promoting financial inclusion and its long-term impact on sustainable development.

Objectives of the study:

The following objectives are framed by analyzing the above literature.

- To explain the importance of Financial inclusion.
- To discuss about impact of financial inclusion in economic development.

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Research Methodology:

This study will employ a mixed-methods approach, combining both quantitative and qualitative research methods to provide a comprehensive understanding of financial inclusion and its impact on economic development. The research will focus on describing the current state of financial inclusion and identifying the relationship between financial inclusion and economic development indicators.

Data Collection Methods:

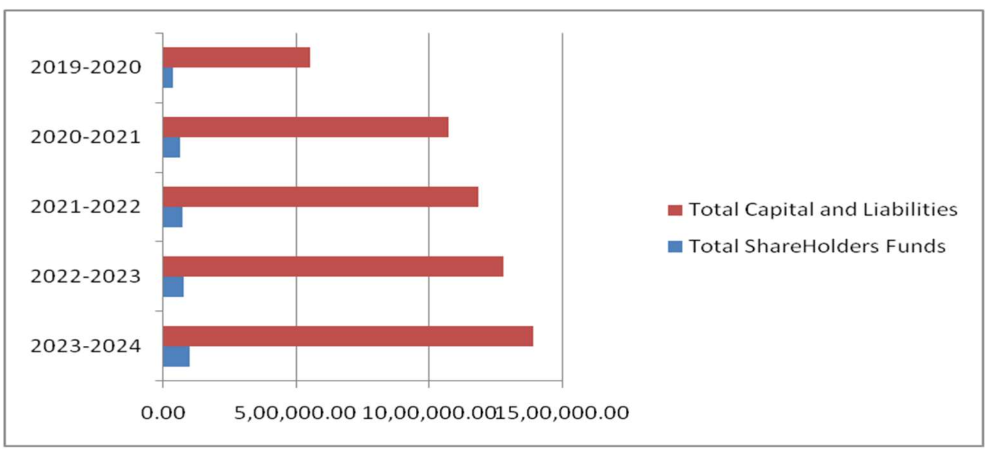
Primary Data:

Surveys: Structured questionnaires will be distributed to collect quantitative data regarding access to financial services, usage patterns, and perceived benefits of financial inclusion.
Interviews: Semi-structured interviews will be conducted with key informants, such as bank officials and policymakers, to gain qualitative insights into the challenges and opportunities of financial inclusion.

Secondary Data:

- Relevant literature, government reports, and financial institution publications will be reviewed to contextualize findings and support the primary data analysis. Economic development indicators (GDP growth, poverty rates, etc.) will be sourced from reliable databases like the World Bank and Reserve Bank of India.

Discussion and analysis



Interpretation:
The shareholder's funds have significantly increased from ₹33,785.64 crores in 2019-2020 to ₹96,968.97 crores in 2023-2024, indicating strong growth in equity and reserves. The equity share capital rose steadily, reflecting an influx of investments. The reserves and surplus also grew notably, from ₹27,188.68 crores to ₹83,690.94 crores, suggesting improved profitability and retained earnings. Although borrowings decreased from ₹52,486.25 crores to ₹26,948.37 crores, indicating reduced reliance on debt financing, deposits rose considerably, indicating increased trust from stakeholders. Overall, the financial health of the organization appears robust, showcasing solid capital management and growth potential.

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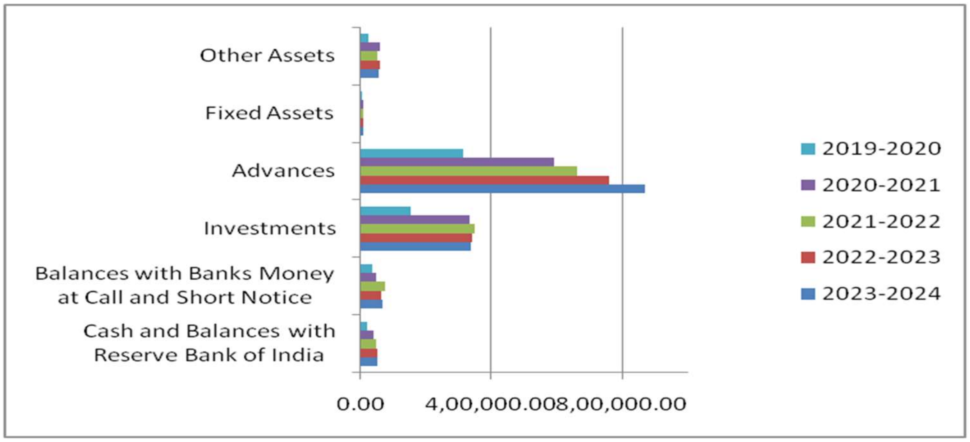
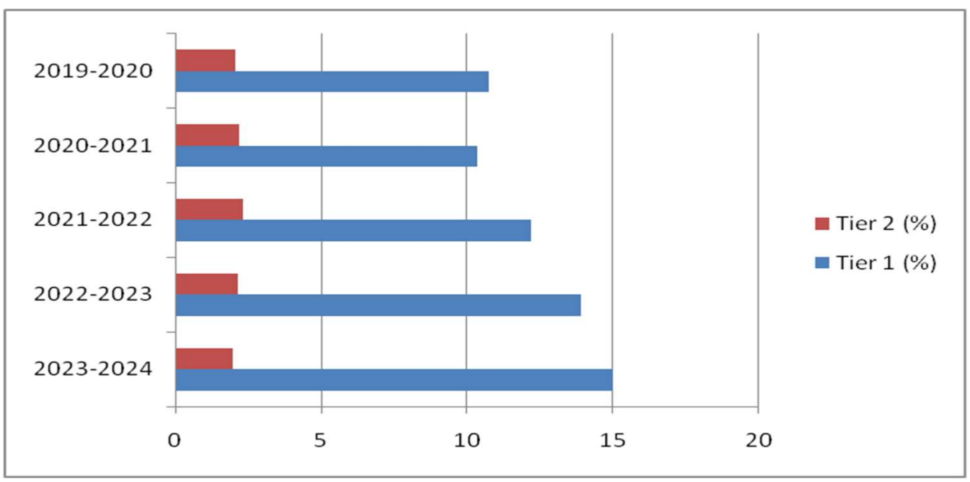


Interpretation:

Total assets have grown from ₹5,50,683.27 crores in 2019-2020 to ₹13,91,957.62 crores in 2023-2024, reflecting robust expansion. Advances significantly increased from ₹3,15,049.41 crores to ₹8,70,776.09 crores, indicating strong lending growth. Cash and balances with the Reserve Bank of India and other liquid assets also rose, showcasing improved liquidity and financial stability.



Interpretation:

The Tier 1 capital ratio has improved significantly from 10.75% in 2019-2020 to 15% in 2023-2024, indicating enhanced financial strength and stability. Conversely, the Tier 2 capital ratio showed a slight decline from 2.06% to 1.97%, reflecting a reduced reliance on supplementary capital.

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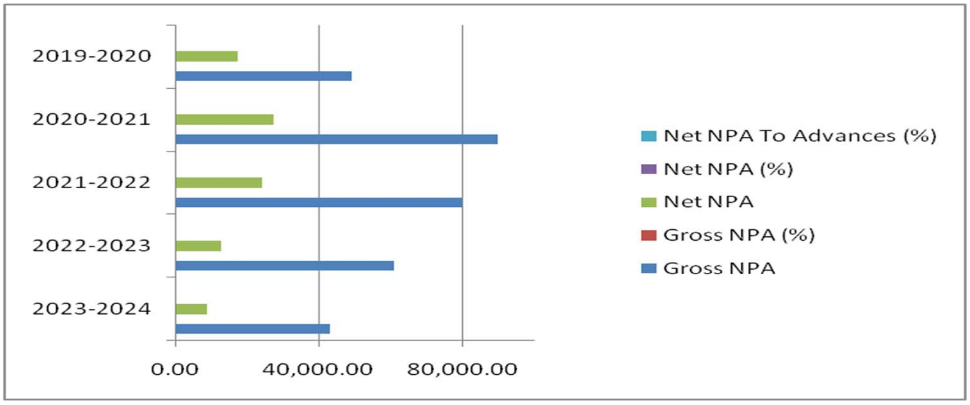
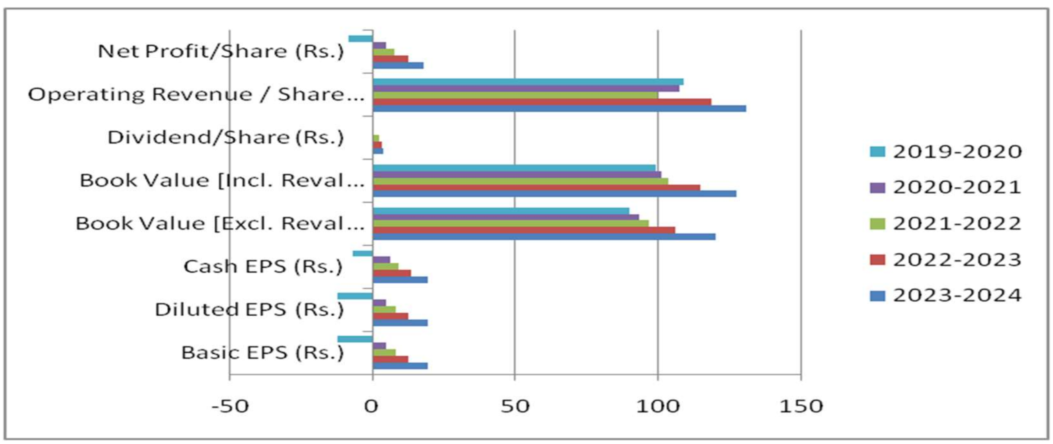


Interpretation:

The gross NPA has significantly decreased from ₹49,085.30 crores in 2019-2020 to ₹43,097.73 crores in 2023-2024, leading to a notable reduction in the gross NPA ratio from 14% to 4.76%. Similarly, net NPA also declined from ₹17,303.14 crores to ₹8,989.92 crores, with the net NPA ratio falling from 5.49% to 1.03%. These improvements indicate a substantial enhancement in asset quality and a more effective management of non-performing assets.



Interpretation:

The per-share ratios indicate significant growth in profitability and shareholder value over the past five years, with the Basic EPS rising from a loss of ₹12.49 in 2019-2020 to ₹18.95 in 2023-2024. The increase in Cash EPS from ₹-7.26 to ₹19.05 reflects improved cash flow generation. Book value per share, both excluding and including revaluation reserves, has also shown consistent growth, suggesting enhanced financial strength. Furthermore, the initiation of dividends, which increased to ₹3.6 in 2023-2024, highlights a positive shift in shareholder returns.

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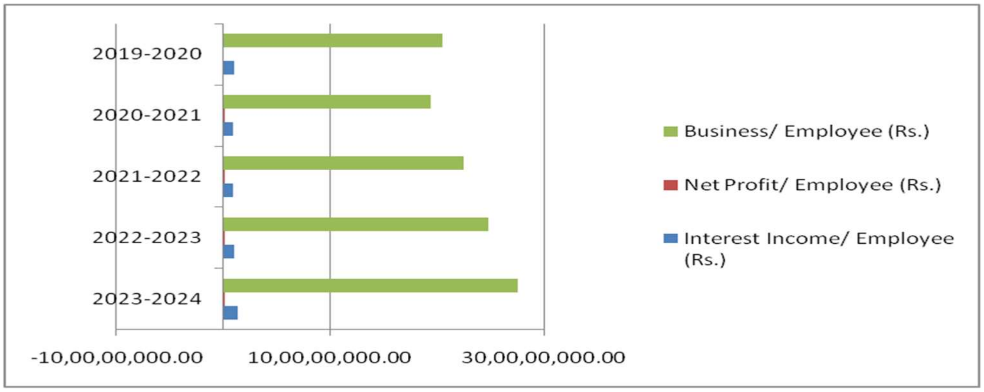
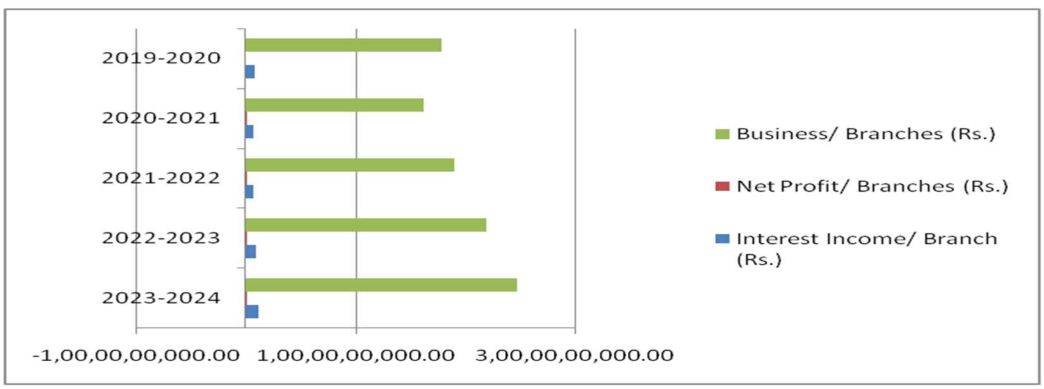


Interpretation:

The per-employee ratios demonstrate substantial growth in productivity and profitability, with Interest Income per Employee increasing from approximately ₹99.77 lakh in 2019-2020 to ₹131.52 lakh in 2023-2024. Net Profit per Employee has improved dramatically, rising from a loss of ₹7.77 lakh to ₹17.99 lakh over the same period. Additionally, Business per Employee has consistently increased, indicating enhanced operational efficiency and employee contribution to overall business performance.



Interpretation:

The per-branch ratios indicate significant improvements in financial performance, with Interest Income per Branch rising from approximately ₹8.69 crore in 2019-2020 to ₹11.79 crore in 2023-2024. Additionally, Net Profit per Branch has turned positive, increasing substantially from a loss of ₹67.64 lakh to ₹1.61 crore, while Business per Branch has shown consistent growth, reflecting enhanced operational effectiveness and branch productivity,

Findings

- The per-share ratios indicate significant growth in profitability and shareholder value over the past five years, with the Basic EPS rising from a loss of ₹12.49 in 2019-2020 to ₹18.95 in 2023-2024. The increase in Cash EPS from ₹-7.26 to ₹19.05 reflects improved cash flow generation. Book value per share, both excluding and including revaluation reserves, has also shown consistent growth, suggesting enhanced financial strength. Furthermore, the initiation of dividends, which increased to ₹3.6 in 2023-2024, highlights a positive shift in shareholder returns.

- The per-branch ratios indicate significant improvements in financial performance, with Interest Income per Branch rising from approximately ₹8.69 crore in 2019-2020 to ₹11.79 crore in 2023-2024. Additionally, Net Profit per Branch has turned positive, increasing substantially from a loss of ₹67.64 lakh to ₹1.61 crore, while Business per Branch has shown consistent growth, reflecting enhanced operational effectiveness and branch productivity.
- The key performance ratios reflect a positive trend in financial health, with Return on Capital Employed (ROCE) slightly improving to 2.09% in 2023-2024. The Net Profit Margin has significantly increased to 13.67%, indicating enhanced profitability. However, the Operating Profit Margin remains negative at -2.43%, suggesting ongoing challenges in operational efficiency. Return on Assets has improved to 0.98%, while Return on Equity has risen to 14.94%, showcasing better returns for shareholders. Additionally, the Net Interest Margin has increased to 2.62%, indicating improved profitability from interest-earning assets despite a stable Cost to Income ratio of 46.41%.
- The total income has shown a significant increase, rising from ₹42.49 crore in 2019-2020 to ₹115.86 crore in 2023-2024. This growth is primarily driven by higher interest earnings, particularly from advances and investments. The consistent rise in interest earned reflects improved financial performance and operational efficiency. Additionally, other income sources have also contributed positively to the overall income growth.

Suggestions

- Expand the availability of banking infrastructure in rural and underserved areas through mobile banking and agent banking models.
- Implement educational programs that enhance financial literacy, empowering individuals to make informed financial decisions.
- Support the establishment and growth of microfinance institutions that provide small loans to low-income individuals and small businesses.
- Utilize fintech solutions to provide affordable and accessible financial products, such as digital wallets and online lending platforms.
- Develop inclusive regulatory policies that protect consumers while fostering innovation in the financial sector.
- Encourage collaboration between governments, private sector players, and non-governmental organizations to create comprehensive financial inclusion strategies.
- Offer incentives for banks and other financial institutions to serve low-income populations and invest in underserved areas.
- Implement social protection programs that provide financial assistance to vulnerable populations, encouraging savings and financial participation.
- Monitor and evaluate financial inclusion initiatives to identify gaps and measure progress, ensuring adaptive strategies are in place.
- Invest in data collection efforts to better understand the barriers to financial inclusion and tailor solutions to meet specific community needs.

Conclusion

In conclusion, financial inclusion plays a pivotal role in fostering economic development by providing individuals and businesses access to essential financial services. By empowering marginalized populations, it promotes savings, investments, and entrepreneurship, leading to job creation and sustainable economic growth. The interplay between financial inclusion and economic development highlights the importance of tailored strategies that address local needs and barriers. Additionally, the use of technology can bridge gaps, making financial services more accessible and affordable. However, effective implementation requires collaboration among governments, financial institutions, and communities to create a supportive regulatory environment. Regular monitoring and evaluation of initiatives are crucial to ensure their effectiveness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and adaptability. Ultimately, prioritizing financial inclusion can drive broader economic progress, reduce poverty, and enhance overall societal well-being.

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