

Literature Review - Promoting Financial Inclusion in Public Banks

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Abstract—Financial inclusion refers to ensuring that everyone, especially marginalized communities, has access to essential financial services such as savings accounts, loans, and insurance. Public banks play a vital role in advancing financial inclusion, particularly in developing countries where a significant portion of the population is unbanked. This paper explores the importance of financial inclusion and the ways in which public banks can promote it. It also examines the challenges public banks face, such as limited infrastructure, bureaucratic inefficiencies, and political interference, which hinder their ability to reach the unbanked. The paper concludes by offering recommendations to improve public banks' efforts in promoting financial inclusion, including embracing digital banking, improving customer education, and expanding branch networks in rural areas.

Index Terms—Public Banks, Financial inclusion.

I. INTRODUCTION

In many parts of the world, a large percentage of the population remains outside the formal banking system, particularly in rural and underserved areas. Financial inclusion is a key factor in ensuring economic development, as it allows individuals and businesses to access essential financial products such as savings accounts, loans, and insurance. Public banks, which are government-owned, are often in a position to serve populations that private banks may overlook due to profitability concerns. This paper investigates how public banks can actively contribute to promoting financial inclusion, the challenges they face in doing so, and potential solutions to these barriers. By improving access to banking services for the unbanked, public banks can stimulate economic growth, reduce poverty, and ensure greater financial stability for all.

II. OBJECTIVES OF STUDY

1. To study the concept of Financial Inclusion.
2. To study the role of Promoting Financial Inclusion in Public Banks.

III. RESEARCH METHODOLOGY

This research used a review of existing literature. For this research researcher referred some research articles published in reputed journals and case study / Examples. This study focuses on Promoting Financial Inclusion in Public Banks.

IV. LITERATURE REVIEW

Beck et al. (2000) attempted to empirically assess the link between financial intermediary developments and economic growth. They discovered that the development of financial Intermediaries have a beneficial influence on productivity growth, which leads to economic development institutional agencies.

Treasury (2004) stated that low-income persons, in particular, were unable to obtain financial goods, imposing significant costs on vulnerable group of people. "Financial inclusion may be described as the process of ensuring access to financial services and timely and enough credit where needed for vulnerable groups such as weaker sections and low-income groups at an affordable cost," according to the Rangarajan Committee on Financial Inclusion (2008). Financial services cover everything from savings to loans, insurance, credit, and payment. At a lecture on "financial inclusion for inclusive growth," Vijay Kelker, chairman of the thirteenth finance commission of the Government of India, stated that "financial inclusion is a quasi-public good because finance performs the important function of mobilizing savings, allocating capital, and transforming risk by pooling and repackaging

it". Faster and more equal growth is facilitated by a well-functioning financial system.

According to S. Vighneswar's (2011) "Financial inclusion: An evaluation of trend and progress," In India, there is a large gap in the number of bank accounts between rural and urban areas, as well as in terms of population coverage per bank location, there is an uneven distribution of banking services. In order to increase financial inclusion, the government needs to adopt more policies and program. According to Bharadwaj (2013), "Financial inclusion for inclusive growth," people are becoming more integrated with banks as a result of the launch of various initiatives, and no-frill accounts are on the rise. Several institutions should hold financial literacy programs in order to improve people's basic knowledge of the country. In their work "Financial Inclusion for Inclusive Growth in India," Dixit and Ghosh (2013) discovered that states with low GDP per capita have poor financial inclusion, with the exception of Gujarat. He also came to the conclusion that there is no link between financial inclusion and unemployment.

Sahu (2013) attempts to determine the link between socio-economic determinants and financial inclusion in India in her study "commercial banks, financial inclusion, and economic growth in India." She compared India's financial inclusion to the index of financial inclusion (IFI) by looking at three dimensions: banking penetration, banking services availability, and banking system utilisation. According to the report, no state in India falls into the high IFI category. Sharma, D. (2015) relationship.

"Nexus between financial inclusion and economic growth" indicates that economic growth and many aspects of financial inclusion have a beneficial

According to Iqbal & Sami (2017), in India, there is a strong link between economic development and the financial inclusion indicator. GDP is a crucial metric for determining a country's progress. In their study "Role of Banks in Financial Inclusion in India," they discovered that number of bank branches and the credit deposit ratio have statistically significant impact on a country group's GDP. Dahiya, S., and Kumar, M. (2020) in their study attempted to link financial inclusion parameters such as credit deposit ratio, ATM growth rate, and bank branch count with the Indian economy in terms of GDP. The data support the existence of a positive and significant link between financial services usage and GDP per capita growth.

Raichoudhury, A. (2020) in his paper "Major determinants of inclusion of India.

Financial inclusion" revealed that the net state domestic product (NSDP), road length and presence of factories have a considerable impact on financial

V. THEORETICAL BACKGROUND

The Importance of Financial Inclusion:

1. Economic Growth-Financial inclusion promotes economic growth by enabling individuals and businesses to access credit, savings, and insurance products. For instance, people who have access to financial services are more likely to invest in education, health, and business ventures, which in turn boosts the overall economy.
2. Poverty Reduction- When people are included in the formal financial system, they have the tools to manage their finances better, save for the future, and mitigate risks through insurance. This is particularly important for low-income individuals who can use financial services to secure a better standard of living.
3. Social Equity - Financial inclusion ensures social equity by providing all sections of society regardless of income level, gender, or geographic location equal access to financial products. This is vital for reducing inequality and ensuring that marginalized communities, such as women and rural populations, are not left behind.

ROLE OF PUBLIC BANKS IN PROMOTING FINANCIAL INCLUSION

Public banks, because they are government-backed, have the unique ability to provide services to the unbanked and under banked populations that private banks may not consider profitable. Here's how they can promote financial inclusion:

1. Expanding Branch Networks in Rural Areas: In many developing countries, rural areas remain under banked due to a lack of physical bank branches. Public banks can expand their branch networks into these areas, ensuring that rural populations have access to banking services. This expansion can also be supported by mobile banking services, which are cheaper and more flexible.

2. **Providing Affordable and Accessible Financial Products:** Public banks can offer low-cost loans, savings accounts, and insurance products tailored to the needs of low-income communities. For instance, offering small, affordable loans to farmers or entrepreneurs can help them invest in their businesses, while low-fee savings accounts can help individuals build financial security.
3. **Digital Banking and Financial Literacy:** With the rise of mobile phones and the internet, digital banking has become a crucial tool for financial inclusion. Public banks can use mobile banking apps and digital platforms to provide services to remote areas with minimal infrastructure. In addition, financial literacy programs can be launched to educate people about managing their finances, understanding interest rates, and using digital banking tools.
4. **Government-Backed Programs:** Public banks can be instrumental in implementing government-backed financial inclusion programs, such as direct benefit transfers (DBT) or subsidized loans for underserved groups. By partnering with the government, public banks can ensure that social welfare programs reach the right people.

THE ROLE OF PUBLIC BANKS IN FINANCIAL INCLUSION

Public banks (state-owned or government-backed) have a social mandate beyond profit, which positions them well to promote inclusive growth by:

- Serving underserved populations (rural, poor, informal sector).
- Providing low-cost banking and financial literacy services.
- Supporting micro, small, and medium enterprises (MSMEs).

Key Strategies for Promoting Financial Inclusion

A. Expanding Access

- Branch and ATM expansion in rural/remote areas.
- Mobile banking and digital platforms to reach unbanked populations.
- Partnering with local institutions and agents for banking correspondents (e.g., India's Business Correspondent model).

B. Affordable Financial Products

- Low-fee basic savings accounts.
- Microcredit and micro insurance products.
- No-frills accounts and overdraft facilities.

C. Financial Literacy Programs

- Community outreach and financial education.
- Partnering with NGOs and schools to raise awareness.
- Use of vernacular languages and local culture in training materials.

D. Targeted Lending

- Directed credit programs for women, farmers, SMEs, and marginalized groups.
- Subsidized interest rates or guarantees for high-risk borrowers.
- Government-backed schemes like priority sector lending (e.g., in India or Kenya).

E. Technology Adoption

- Use of AI and big data to assess creditworthiness for people with no formal credit history.
- Digital identity systems (e.g., Aadhaar in India) to facilitate easy onboarding.

Case Studies / Examples

India – Public Sector Banks (PSBs)

- The Pradhan Mantri Jan Dhan Yojana (PMJDY) opened over 400 million bank accounts via PSBs.
- Use of Rupay debit cards and mobile banking supported financial inclusion.

Brazil – Banco do Brasil

- Provides agricultural credit to smallholder farmers.
- Extends services through correspondent banking agents in remote areas.

Kenya – PostBank

- Offers savings and mobile banking services.
- Partners with M-Pesa for mobile money access in rural zones.

VI. RECOMMENDATIONS FOR PUBLIC BANKS

- Invest in digital infrastructure for remote banking.
- Train staff in inclusive banking practices and local engagement.
- Establish measurable inclusion targets (e.g., % of rural customers served).

- Collaborate with fintechs, cooperatives, and NGOs for outreach.
- Monitor impact with data and feedback loops to adjust policies.
- Challenges Faced by Public Banks in Promoting Financial Inclusion:
- Despite their potential, public banks face several challenges in promoting financial inclusion:
 1. Bureaucratic Inefficiencies: Public banks are often burdened by bureaucratic processes that slow down decision-making and hinder their ability to reach underserved populations. These inefficiencies can result in long waiting times for loan approvals or account openings, making it harder to serve people in urgent need of financial services.
 2. Limited Infrastructure in Remote Areas: Reaching the unbanked in rural areas requires significant investment in infrastructure, including bank branches, ATMs, and reliable internet connections. Public banks, particularly in developing countries, often struggle with limited resources to set up infrastructure in these hard-to-reach areas.
 3. Political Interference: Public banks can be influenced by political agendas, which may lead to poor decision-making or improper allocation of resources. Political interference can result in unprofitable lending practices, such as issuing loans to politically connected individuals or businesses without proper risk assessments, further hindering the bank's ability to serve marginalized communities.
 4. Lack of Technological Advancement: Many public banks are still lagging behind in adopting modern technologies like mobile banking apps or online platforms. This technological gap makes it difficult for public banks to provide convenient services to younger populations or tech-savvy individuals who prefer digital banking solutions.

VI. FINDINGS AND DISCUSSION

Promoting financial inclusion through public banks has revealed several important findings that highlight both progress and persistent challenges.

Public banks, due to their mandate to serve public interests rather than prioritize profit, are uniquely positioned to reach underserved and marginalized communities. One major finding is that access to financial services remains uneven, especially in rural and low-income areas where public banks have expanded outreach through branch networks, mobile banking, and agent-based models. However, gaps in infrastructure and digital literacy continue to hinder full inclusion. Financial literacy itself is a crucial barrier, with many individuals lacking the knowledge to effectively use banking services. While public banks have initiated educational programs, these efforts are often not widespread or tailored enough to meet diverse needs.

Digital transformation has been another area of focus, with public banks increasingly adopting mobile and online platforms to improve service delivery. Despite this, many still struggle with outdated technology systems, limited skilled personnel, and resistance to change. Access to affordable credit remains a key challenge, particularly for individuals without formal credit histories. Public banks have made some headway through microfinance and targeted lending schemes, but risk management and sustainable lending practices need improvement. Furthermore, gender and social exclusion continue to be issues, with women and minority groups often facing structural barriers in accessing finance. Although some public banks have launched inclusive financial products, more comprehensive strategies are needed. Supportive government policies and regulatory frameworks play a significant role, and in many cases, policy incentives have helped accelerate financial inclusion initiatives. Overall, the findings suggest that while public banks have made meaningful contributions toward financial inclusion, there is still a need for coordinated efforts, technological investment, policy support, and community engagement to achieve more equitable and widespread access to financial services.

VII. RECOMMENDATIONS

To overcome these challenges, public banks can adopt the following strategies:

1. Embrace Digital Banking- Public banks should prioritize digital banking solutions like mobile apps, online banking, and digital wallets to offer accessible services to remote areas. By utilizing digital platforms, banks can reduce the cost-of-

service delivery and provide services at a wider scale.

2. **Improve Governance and Reduce Bureaucracy:** Streamlining internal processes and reducing bureaucratic hurdles can help public banks become more efficient. Implementing better governance practices, with transparency and accountability, can ensure that resources are used effectively to promote financial inclusion.
3. **Increase Public-Private Partnerships:** Public banks can work with private sector partners to expand access to financial services. For example, collaborating with fintech companies can bring innovative solutions to public banks, such as using block chain for secure and transparent transactions.
4. **Expand Financial Literacy Programs:** Public banks should launch nationwide financial literacy campaigns to teach people about managing finances, saving, and investing. These programs can empower individuals to take full advantage of the financial products available to them.
5. **Targeted Government Schemes:** Public banks can further collaborate with governments to design targeted financial inclusion programs, particularly for vulnerable populations such as farmers, women, and small entrepreneurs. These programs can provide subsidies, low-interest loans, and other forms of financial support.

VIII. CONCLUSION

Public banks play a central role in promoting financial inclusion by offering banking services to underserved and marginalized communities. While they face challenges such as inefficiency, infrastructure limitations, and political interference, these can be addressed through better governance, investment in technology, and strategic partnerships. By focusing on digital banking, expanding access to remote areas, and improving financial literacy, public banks can drive positive change, fostering greater financial inclusion and economic growth.

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