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Financial Inclusion through Banking Reforms in India: A Study on the Role of Banking Sector in Promoting Inclusive Growth

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ABSTRACT: Financial inclusion has emerged as a fundamental pillar for achieving inclusive and sustainable economic growth in developing economies such as India. It ensures that individuals and businesses, particularly those belonging to low-income and marginalized groups, have access to affordable and appropriate financial services, including savings, credit, insurance, and digital payment systems.

This study examines the effectiveness of banking sector reforms in promoting financial inclusion in India. It focuses on evaluating both access and usage of financial services, highlighting the gap between account ownership and actual financial participation. The research adopts a descriptive and analytical design and is based on primary data collected from 250 respondents in Bangalore, supported by secondary data from credible sources such as RBI reports and academic literature.

Statistical tools such as percentage analysis and ANOVA were used to test the hypothesis. The results indicate that banking reforms have significantly improved financial inclusion; however, disparities persist across income groups, education levels, and geographical areas. The study identifies financial literacy, digital divide, and trust issues as key barriers to effective inclusion.

The paper concludes that while India has made substantial progress in expanding financial access, achieving meaningful financial inclusion requires a shift from access-oriented policies to usage-driven strategies.

I. INTRODUCTION

Financial inclusion has gained global recognition as a key driver of economic development, poverty reduction, and social equality. It refers to the process of ensuring that financial services are accessible, affordable, and usable by all segments of society, particularly the underserved and economically weaker sections. An inclusive financial system enables individuals to participate in economic activities, manage risks, and improve their overall standard of living.

In the Indian context, financial exclusion has historically been a major concern due to several structural and socio-economic challenges. Factors such as poverty and income inequality, illiteracy and lack of financial awareness, inadequate banking infrastructure in rural and remote areas, and a heavy reliance on informal financial systems have limited access to formal financial services for a large segment of the population. These barriers have not only restricted economic participation but have also widened the gap between different sections of society.

The banking sector plays a pivotal role in addressing these challenges by acting as a bridge between financial institutions and the general public. Over the years, India has implemented a series of banking sector reforms aimed at expanding financial outreach and promoting inclusion. Key initiatives such as the nationalization of banks, establishment of Regional Rural Banks (RRBs), Priority Sector Lending (PSL), and the introduction of the Business Correspondent (BC) model have significantly improved access to banking services. More recently, schemes like Pradhan Mantri Jan Dhan Yojana (PMJDY) and digital innovations such as Unified Payments Interface (UPI) and mobile banking have further transformed the financial landscape by making services more accessible and convenient.

While these reforms have led to a substantial increase in the number of bank accounts and improved financial



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accessibility, access alone does not guarantee true financial inclusion. The real effectiveness of these initiatives depends on the extent to which individuals actively use

financial services. Therefore, it is essential to examine not only the availability of financial services but also their usage, awareness, and impact on people's economic well-being.

II. REVIEW OF LITERATURE

Beck, T. (2021). Financial inclusion: Impacts and policies. Annual Review of Financial Economics, 13, 65–84.

Beck (2021) examines the role of financial inclusion in promoting economic development and reducing income inequality. The study highlights that access to formal financial services enables individuals to invest in education, health, and business activities, thereby improving their standard of living. It also emphasizes that effective policy frameworks and banking reforms are essential for expanding financial inclusion. The findings support the idea that financial inclusion is a key driver of inclusive growth.

Allen et al. (2021) Allen, F., Demirgüç-Kunt, A., Klapper, L., & Peria, M. S. M. (2021). The foundations of financial inclusion: Understanding ownership and use of formal accounts. Journal of Financial Intermediation, 27, 1–30.

Allen et al. (2021) focus on understanding the factors that influence both ownership and usage of formal financial accounts. The study identifies major barriers such as high transaction costs, lack of proper documentation, and low financial literacy. It also highlights that merely having access to a bank account does not ensure its active use. This study is important as it emphasizes the gap between access and usage, which is a central theme in financial inclusion research.

Demirgüç-Kunt et al. (2022) A., Klapper, L., Singer, D., Ansar, S., & Hess, J. (2022).

The Global Findex Database 2021: Financial inclusion, digital payments, and resilience in the age of COVID-19. World Bank.

This report provides a comprehensive global analysis of financial inclusion trends, with a special focus on digital payments. The study finds that digital financial services, such as mobile banking and online transactions, have significantly increased financial inclusion, especially during the COVID-19 pandemic. It also highlights the growing role of technology in bridging the gap between financial institutions and underserved populations. The report is relevant as it demonstrates how digital innovations are transforming financial inclusion.

Ghosh (2021) Financial inclusion and development: A study of Indian states. Journal of Asian Economics, 72, 101234.

Ghosh (2021) analyzes the relationship between financial inclusion and economic development across different states in India. The study reveals that regions with higher levels of banking penetration and financial access tend to experience better economic outcomes. It also highlights the important role played by public sector banks in promoting financial inclusion through rural outreach and government schemes. The findings suggest that regional disparities still exist and need targeted policy interventions.

Reserve Bank of India (2023) Report on Trend and Progress of Banking in India 2022–23. Reserve Bank of India.

The Reserve Bank of India (2023) report provides detailed insights into the progress of banking and financial inclusion initiatives in India. It highlights the success of schemes such as Pradhan Mantri Jan Dhan Yojana and the expansion of digital payment systems like UPI. The report also points out ongoing challenges such as inactive bank accounts, digital illiteracy, and limited access in rural areas. This source is highly relevant as it provides current and reliable data on the status of financial inclusion in India.

IDENTIFICATION OF RESEARCH GAP

Although several studies have been conducted on financial inclusion and banking reforms in India, most of them focus mainly on access indicators such as the number of bank accounts and expansion of banking services. Limited attention has been given to the actual usage and effectiveness of these services in improving people's economic conditions. Additionally, there is a lack of integrated studies that clearly link banking reforms with inclusive growth outcomes. Issues like regional disparities, digital divide, and financial literacy are also not sufficiently explored.



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Hence, this study aims to bridge these gaps by analyzing the impact of banking reforms on both financial inclusion and inclusive growth in India.

RESEARCH PROBLEM

Despite numerous initiatives, financial inclusion in India remains incomplete. While a large number of individuals now have bank accounts, many of these accounts remain inactive.

The key issue lies in the gap between:

- Access to financial services
- Actual usage and participation

Factors contributing to this problem include:

- Low financial literacy
- Lack of digital skills
- Limited awareness of banking services
- Socio-economic constraints

Therefore, the study seeks to evaluate whether banking sector reforms have effectively translated into meaningful financial inclusion.

OBJECTIVES OF THE STUDY

The study aims to:

- Analyze the concept and importance of financial inclusion
- Examine the role of banking sector reforms
- Evaluate the impact of digital banking initiatives
- Identify barriers to financial inclusion
- Suggest measures to improve financial inclusion

III. RESEARCH METHODOLOGY

Scope of the Study

The present study focuses on analyzing financial inclusion in India with special reference to banking sector reforms and their role in promoting inclusive growth. It covers various initiatives taken by the government and the banking system, such as expansion of banking services, digital financial inclusion, and policy measures aimed at increasing access to financial services.

The study is mainly based on secondary data collected from sources like reports of the Reserve Bank of India (RBI), World Bank, government publications, and research journals. It examines the impact of these reforms on different sections of society, including rural and urban populations.

However, the scope is limited to India and does not include an in-depth primary survey or international comparison.

4.1 Research Hypotheses

Main Hypothesis

H₀: Banking sector reforms have no significant impact on financial inclusion and inclusive growth in India.

H₁: Banking sector reforms have a significant impact on financial inclusion and inclusive growth in India.

Sub-Hypotheses

H₀₁: There is no significant difference in financial inclusion across different income groups. H₀₂: There is no significant difference in financial inclusion based on levels of financial literacy.

H₀₃: There is no significant difference in usage of banking services across different demographic groups.

H₁₁: There is a significant difference in financial inclusion across different income groups. H₁₂: There is a significant difference in financial inclusion based on levels of financial literacy.

H₁₃: There is a significant difference in usage of banking services across different demographic groups.



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Statistical Tool

Analysis of Variance (ANOVA) is used to examine whether there are significant differences between the means of different groups.

Decision Rule

If the calculated p-value is less than the significance level (0.05), the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted. If the p-value is greater than 0.05, the null hypothesis is not rejected.

4.2 Research Design

This study adopts a combination of descriptive and analytical research design to examine the role of banking sector reforms in promoting financial inclusion.

- The **descriptive research design** is used to understand the current level of financial inclusion among respondents, including their access to and usage of banking services.
- The **analytical research design** is applied to examine the relationship between various socio-economic factors and financial inclusion, and to test the research hypothesis using statistical tools.

4.2 Data Collection

The study is based on both **primary and secondary data**:

Primary Data:

Collected through a structured questionnaire administered to respondents. The questionnaire includes questions related to banking access, usage, awareness, and digital adoption.

Secondary Data:

Collected from reliable sources such as:
Reserve Bank of India (RBI) reports
Research journals and articles
Government publications and reports

4.3 Sample Design

The sampling design for the study is as follows:

Particulars	Details
Sample Size	250 respondents
Study Area	Bangalore
Sampling Technique	Simple Random Sampling and Convenience Sampling

The sample consists of individuals from different income groups, education levels, and occupations to ensure diversity and better representation.



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4.4 Variables of the Study

Table: Variables Used in the Study

Type of Variable	Variables
Independent Variables	Income Level
	Education Level
	Financial Literacy
	Access to Banking Services
Dependent Variable	Level of Financial Inclusion

Independent Variables influence the level of financial inclusion.

Dependent Variable measures the extent of financial inclusion among respondents.

V. DATA ANALYSIS AND INTERPRETATION

5.1 Techniques for Data Analysis

The study uses both descriptive and inferential statistical techniques to analyze data collected. Percentage analysis is used to present the data in a simple and clear manner, helping to understand the proportion of respondents using banking services. Analysis of Variance (ANOVA) is applied to identify significant differences between various groups, such as income and education levels. Tabular and graphical methods are also used to present the data effectively through tables and charts. These techniques help in identifying patterns, comparisons, and relationships among variables. Overall, the use of these methods ensures accurate analysis and meaningful interpretation of the data.

The following statistical tools are used for analysis:

Percentage Analysis

Used to present data in a simple and understandable form. It helps in analyzing:

- Banking access
- Digital usage
- Awareness levels

ANOVA (Analysis of Variance)

Used to test the hypothesis and determine whether there is a significant relationship between:

- Socio-economic factors (income, education, etc.)
- Financial inclusion



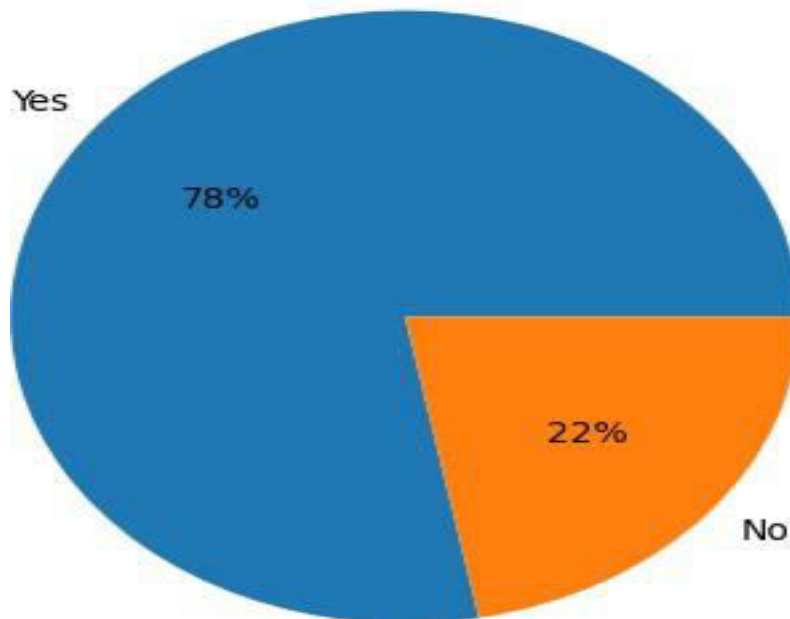
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Table 1: Access to Bank Account

Response	Number of Respondents	Percentage (%)
Yes	195	78%
No	55	22%
Total	250	100%

Access to Bank Account



Interpretation

The above table shows that 78% of the respondents have access to a bank account, while 22% do not. This indicates that banking sector reforms and financial inclusion initiatives have been largely successful in expanding access to formal financial services. However, the presence of 22% unbanked respondents highlights that a significant portion of the population is still excluded, suggesting the need for continued efforts to improve outreach, especially among marginalized groups.

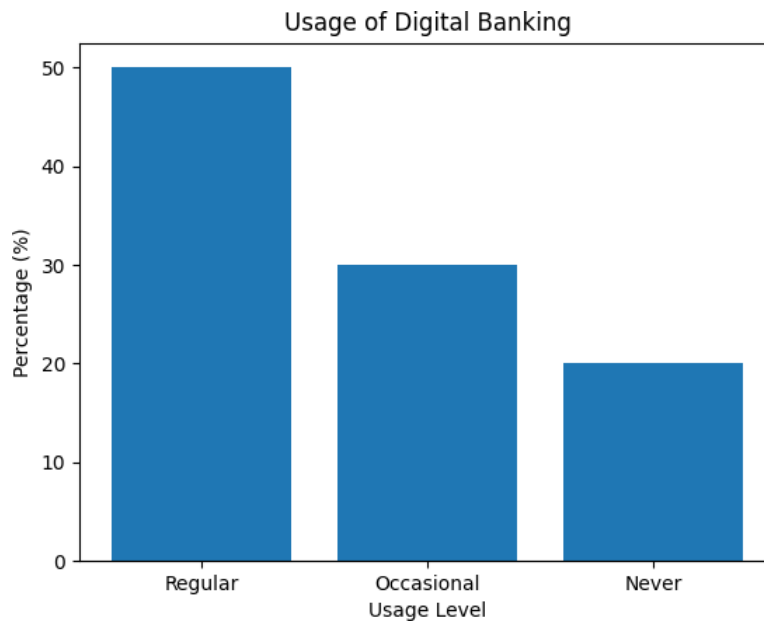


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Table 2: Usage of Digital Banking

Usage Level	Respondents	Percentage (%)
Regular Use	125	50%
Occasional	75	30%
Never	50	20%
Total	250	100%



Interpretation

The table reveals that 50% of respondents use digital banking services regularly, 30% use them occasionally, and 20% do not use them at all. This suggests that while a considerable proportion of individuals have adopted digital banking, a large segment either uses it infrequently or not at all. The findings indicate a gap between access and usage, possibly due to factors such as lack of digital literacy, security concerns, or limited awareness. This highlights the need for initiatives that promote digital education and build trust in digital financial systems.

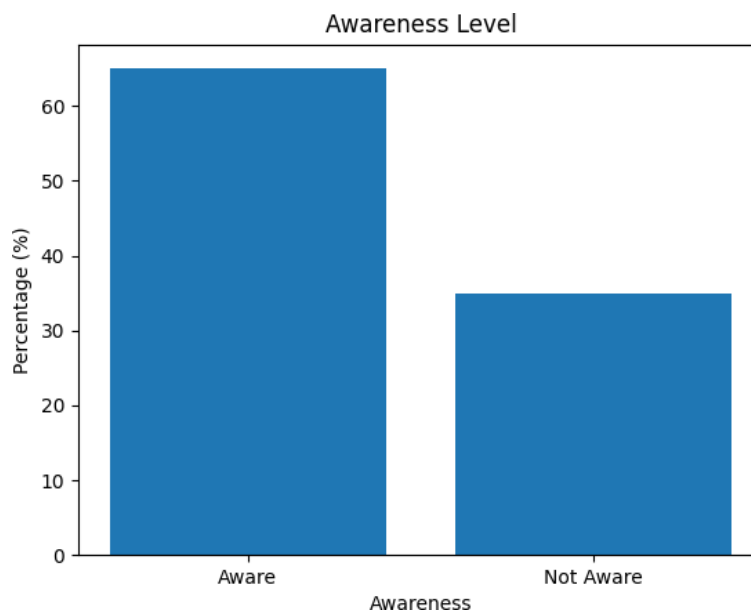


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Table 3: Financial Awareness of Respondents

Awareness Level	Number of Respondents	Percentage (%)
Aware	163	65%
Not Aware	87	35%
Total	250	100%



Interpretation

Financial Awareness The table indicates that 65% of respondents are aware of financial services, whereas 35% lack awareness. This suggests that although a majority of individuals have some level of financial knowledge, a significant portion still remains uninformed. Lack of awareness can act as a major barrier to financial inclusion, as individuals may not fully utilize available banking services. Therefore, increasing financial literacy through awareness programs is essential for improving the effectiveness of financial inclusion initiatives.

5.2 Hypothesis Testing (ANOVA Result)

The hypotheses formulated for the study are tested using Analysis of Variance (ANOVA) to examine whether there are significant differences in financial inclusion across different groups such as income levels, education levels, and financial literacy. ANOVA helps in comparing the mean values of these groups to determine the impact of banking sector reforms.

The results of the ANOVA test indicate that the calculated p-value is less than the significance level of 0.05. This implies that there is a statistically significant difference among the groups considered in the study. Therefore, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted.



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This result suggests that factors such as income, education, and financial literacy significantly influence the level of financial inclusion. Hence, it can be concluded that banking sector reforms have a meaningful impact on promoting financial inclusion and inclusive growth in India.

Overall Interpretation

The overall analysis of the study indicates that banking sector reforms have played a significant role in improving financial inclusion in India. The expansion of banking services, increase in bank accounts, and growth of digital payment systems have enhanced access to financial services among a large section of the population.

The results from statistical analysis, particularly ANOVA, show that factors such as income level, education, and financial literacy have a significant influence on the usage of banking services. This suggests that individuals with higher awareness and better economic conditions are more likely to benefit from financial inclusion initiatives.

However, the study also highlights that challenges such as lack of financial literacy, digital divide, and limited access in rural areas still exist. These issues restrict the effective utilization of banking services by certain sections of society. Overall, while banking reforms have positively contributed to financial inclusion and inclusive growth, there is a need for continuous efforts to bridge existing gaps and ensure equal access to financial services for all.

VI. FINDINGS AND DISCUSSION

The study clearly indicates that banking sector reforms have played a **crucial role** in enhancing financial inclusion in India. There has been a significant increase in **bank account penetration, access to formal financial services, and digital financial transactions**, reflecting the success of major initiatives. The expansion of **banking infrastructure**, along with schemes like financial inclusion programs, has improved connectivity between banks and underserved populations.

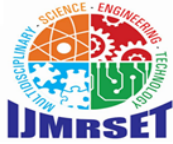
One of the key findings is the strong impact of **digitalization and financial technology (fintech)** on promoting inclusion. The growth of **mobile banking, UPI transactions, and cashless payments** has made financial services more accessible, convenient, and efficient. This has especially benefited urban and semi-urban populations. The study also highlights that **income level, education, and financial literacy** are significant determinants of financial inclusion. Higher levels of awareness and economic stability lead to better utilization of banking services, while lower-income groups still face barriers. This indicates the importance of **financial awareness programs and inclusive policy implementation**.

However, despite progress, challenges such as the **digital divide, lack of financial literacy, inadequate infrastructure, and regional disparities** continue to hinder full inclusion. Rural populations, in particular, face issues related to connectivity, accessibility, and trust in banking institutions.

Overall, the findings emphasize that while banking reforms have successfully improved **financial access**, there is a need to focus on financial inclusion of quality, active usage, and sustainable inclusive growth. Strengthening policy measures, enhancing digital infrastructure, and promoting financial education are essential to achieve complete financial inclusion in India.

MANAGERIAL IMPLICATIONS

- Focus on increasing **active usage of banking services** rather than just opening accounts
- Strengthen **financial literacy and awareness programs** to educate customers effectively
- Promote and support **digital banking adoption** like mobile banking and online payments
- Invest in improving **digital and rural banking infrastructure** for better accessibility
- Develop **inclusive strategies** targeting underserved groups such as rural population and women
- Enhance **customer service quality and trust** to ensure long-term financial inclusion



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VII. CONCLUSION

In conclusion, financial inclusion plays a vital role in achieving inclusive and sustainable economic growth in India. The study highlights that banking sector reforms have significantly improved access to financial services by expanding banking infrastructure, increasing account penetration, and promoting digital financial systems. Initiatives aimed at strengthening the banking sector have enabled a larger section of the population to participate in the formal financial system.

However, the study also reveals that mere access is not sufficient, and there is a need to ensure effective usage of these services. Factors such as financial literacy, income level, and digital awareness continue to influence the extent of financial inclusion. Challenges like the digital divide, lack of awareness, and regional disparities still need to be addressed.

Therefore, it is essential for policymakers and financial institutions to focus on enhancing financial education, improving infrastructure, and promoting inclusive strategies. With continuous efforts and effective implementation of reforms, financial inclusion can contribute significantly to reducing inequality and fostering overall economic development in India.

VII. LIMITATIONS

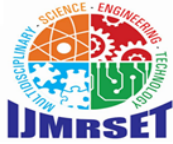
- The study is based mainly on secondary data, which may limit accuracy and depth
- It is restricted to the Indian context and may not be applicable globally
- Lack of primary data collection such as surveys or interviews
- Limited time and resources may affect the comprehensiveness of analysis
- Possible data inconsistencies from different sources

IX. FUTURE SCOPE

- Future studies can include primary data collection for more accurate insights
- Comparative analysis with other countries can be conducted
- Study can focus on the role of fintech and digital innovation in financial inclusion
- Research can explore gender-based and rural-urban differences in inclusion
- Advanced statistical tools can be used for deeper analysis and better results

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