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Roles of Indian Commercial Banks for Financial Inclusion

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Abstract- This paper takes a critical look at how the commercial banks of India have been playing a leading role in promoting financial inclusion among the various categories of people in the demographic divide, especially the neglected rural and semi-urban sectors. It examines how much banks have increased access to banking services, that is, savings, credit and digital platforms, and it examines the obstacles that restrict successful outreach and active utilization. With the descriptive research design and the structure questionnaire applied to 60 respondents, the study reveals the notable advancements in account ownership and digital adoption and the remainders of the barriers that refer to the financial literacy gap, infrastructural gaps, and socio-cultural variables. These data highlight that despite the vital role played by commercial banks in driving the incorporation by the government initiatives such as the Pradhan Mantri Jan Dhan Yojana, transformation of access into active participation demands greater levels of customer education, streamlined processes, and improved digital infrastructure. The study informs the knowledge on thoroughly understanding the banking activities and all-inclusive economic growth in India as a dynamic relationship and provides strategic suggestions that banks and policy makers can follow to reduce the financial gap in a sustainable development.
Keywords- financial inclusion, commercial banks, India, banking services, digital banking, financial literacy, rural finance, government schemes, economic empowerment.

I. INTRODUCTION

The Financial inclusion is turning out to be an important policy goal in most of the developing economies and especially in India where a huge number of individuals have not been integrated into the formal financial network. In its simplest terms, financial inclusion is the availability and access of cheap financial products and services which include savings, credit, insurance, and payment systems to every individual and business irrespective of the economic and/or geographic location. It is this inclusiveness that forms the basis of promoting equitable economic development, alleviation of poverty and social empowerment.

The large and heterogeneous population of India, a major population being concentrated in the rural and semi-urban regions, brings about special problems and opportunities of financial inclusion. Commercial banks being the dominant types in the Indian banking sector comprise the major medium through which the masses are reached by the formal financial services. The penetration of banking services has risen massively in the last few decades because of multiple factors like reforms, government initiatives (such as liberalization of the banking sector, development of technology, and specific government schemes like the Pradhan Mantri Jan Dhan Yojana (PMJDY)). Commercial banks have developed a wide network of branches and technological-based services such as mobile and internet banking and have partnered with Business Correspondents (BCs) to target the under-served populations.

Alongside these advances, there remains a large disparity between the owned accounts and the effective financial participation and thus, there are large numbers of people who do not own bank accounts or have inactive accounts. Low financial literacy, infrastructural shortage, complex procedures, and socio-cultural aspects remain structural barriers to effective inclusion. The outreach is further complicated by the digital divide that is triggered by low availability of the internet and smartphones in the rural regions. In that way, the evaluation of the role that the Indian commercial banks play in closing these gaps is crucial to comprehend the existing situation and define the methods to make the inclusion even more profound.

1.2 Statement of the Problem

Despite the significant advances in the expansion of access to banks, the problem of financial exclusion of the major part of the Indian population is still urgent. The issue here lies in the fact that there is a small proportion of commercial banks transforming outreach into active and lasting financial involvement, particularly with the economically weaker of the communities and the marginalized ones. Most commercial banks have the tendency of focusing on the lucrative markets in the urban areas at the expense of the rural and remote areas.

The post operational issues like excessive cost of transactions, regulatory compliance, and risk aversion also do not enthuse banks to vigorously undertake the pursuit of inclusion. Also, a lack of financial literacy and the lack of trust in potential customers limit the usage of formal banking services. The current acceleration in the digitization of the banking system, which promises to reach more people, comes with its own set of problems in the form of infrastructural, cybersecurity, and user proficiency barriers that can wind up isolating the people with no digital access or ability.

Therefore, this paper will critically examine how the Indian commercial banks are coping with those challenges, their efficiency in aiding financial inclusion and the issues that act against or assist their reach and service provision in the Indian divergent socio-economic setting.

1.3 Study Objectives

The major aim of the study is to understand the role that commercial banks of India play in promoting financial inclusion and also assess the contribution of the commercial banks of India in enhancing access to financial services by the underserved groups. In a bid to achieve this, this researchpaper aims at the following specific objectives:

To look into the depth and the kind of financial services commercial banks are involved in particularly to the rural and marginalized populations.

To evaluate the success of government-initiated financial inclusion programs and commercial banks involvement in the programs.

To determine some of the important challenges and hindrances affecting commercial banks in enhancing financial inclusion, in terms of infrastructural, technological, regulatory and socio-cultural elements.

To find out the importance of digital banking and technological innovations in improving financial inclusion by way of commercial banks.

To make strategic suggestions to commercial banks and policymakers in an attempt to empower inclusive banking practices.

1.4 Research Questions

With the objectives in mind, the questions that the study tends to answer are the following research questions:

How can the Indian commercial banks contribute nowadays in providing financial services to the unbanked and underbanked peoples?

What has been the efficiency of commercial banks in rolling out government financial inclusion schemes like PMJDY?

What are the major obstacles facing commercial banks in a bid to accomplish more financial inclusion?

What is the degree of impact of digital banking solutions on access and the usage of financial services by marginalized population groups?

Which policy and operational steps can be taken to strengthen the ability of commercial banks to promote inclusively financial development?

1.5 Importance of the Study

The study is a beneficial addition to knowledge in the role of commercial banks in the financial inclusion agenda in India which is changing. Through a close look at the reach and service delivery of banks as well as the obstacles that they encounter, the study offers a sophisticated picture of the achievements and shortcomings of the existing inclusion initiatives. The results can be used by banking institutions, policymakers and development practitioners who are aiming at coming up with more effective strategies to empower financial access and usage.

The theme of digital banking and the use of technology selected in the study is very timely when applied to the Indian market since the country is experiencing a high pace of digitalization. An insight into the technological capacity of banks to deliver services to the underserved populations helps to outline the best practices and challenges. More so, the study points at the essence of customer education and infrastructural backups and stresses on the combined approach to financial inclusion.

On the academic side, the study contributes to closing a research gap since there are few studies that have used empirical data and overlaid it with policy and operations analysis to present a wholesome picture of what commercial banks are doing towards inclusive finance. It establishes the foundation of further research on the inclusive banking in the emerging markets.

1.6 Scope and Limitation

This research paper is covered with the analysis of the involvement of commercial banks of India in financial inclusion especially targeting rural and semi-urban regions. It assesses several aspects such as banking outreach, the uptake of digital services, the government schemes, as well as the constraints faced by the banks and clients.

There are however certain limitations. Research is done through the help of secondary data and a small sample size (60 respondents), which can make it difficult to extrapolate the results to the various regions of India. Other financial intermediaries like cooperative banks and non-banking financial companies (NBFCs) are not included in the research although they also affect the dynamics of financial inclusion. Moreover, the digital technologies are developing fast; therefore, there is a possibility that some of the findings need to be reviewed as the situation is evolving.

In spite of these constraints, the study will provide important findings that could be used by policy makers, financial institutions, and researchers with interest in closing the financial gap in India.

II. LITERATURE REVIEW

Financial inclusion is widely described as the procedures through which individuals and enterprises get access to helpful and affordable financial products and services that suit their requirements, transactions, payments, savings, credit, and insurance, in a reputable and sustainable manner (Ozili & Syed, 2024). The idea is no longer limited to the access to the banking facilities but has been shifted to the more comprehensive concept that lays stress on the quality, usability and sustainability of the financial services. Financial inclusion has been found to be of special significance in the Indian context owing to the huge proportion of the population that resides in the rural settings and the high level of informal financial systems. Biswas (2021) argues the transformational nature of mobile financial services in filling the gaps left by weak physical infrastructure to allow rural users to participate in transactions and savings with greater efficiency. This development is in line with the discoveries of Sharma (2024a, 2024b) that financial behavior of low-income earners and urbanized family/individual is complicated and influenced by various socio-economic dynamics, which demand customized financial product and bank inclusiveness strategies. The Reserve Bank of India (RBI) highlights the various aspects of financial inclusion stating that access, usage, financial literacy, and customer protection are the key elements to get fair economic empowerment (Government of India, RBI, 2024). Nevertheless, low awareness, infrastructural limitation, socio-cultural hindrances, and digital illiteracy are some of the hitches that policy thrusts and technological advances have been unable to eliminate in realizing full inclusion (Jalota et al., 2024). All of this is complicated by the digital divide, where the low smartphone penetration and internet access are not distributed evenly across all populations, especially those rural or marginalized, which is confirmed both by the qualitative research and user experiences discussed on digital banking impediments (Reddit user discussion, 2025). Therefore, financial inclusion in India is a continuing policy agenda, which requires concerted action among the stakeholders to fix the gaps that still exist.

India Commercial banks are at the center of the financial inclusion agenda in India because they are the overwhelming formal financial intermediaries. On the efficiency differences of Indian banks to promote inclusions, Eshun and Kočenda (2024) present empirical evidence that, although bigger commercial banks are able to reach wider, smaller specialized banks tend to be more efficient in certain segments. Pradhan Mantri Jan Dhan Yojana (PMJDY), the flagship programme of the government, has contributed to the increase in account ownership through commercial banks, opening of millions of zero-balance accounts with the target to bring the previously unbanked groups into the banking fold (Wikipedia contributors, 2025a). This program also connects the beneficiaries with insurance and pension programs, which depicts a comprehensive inclusion scenario (Dvara Research, 2023). Added to this are digital banking innovations, such as mobile applications, internet banking, and Unified Payments Interface (UPI), which have made the availability of banking services and their usability even more accessible and convenient (Kanaparthi, 2024). However, commercial banks have a twin problem of meeting the targets of inclusion with business sustainability and thus tend to focus on profitable urban markets at the cost of rural areas because of the greater operational costs and credit risks (The Economic Times, 2025). The procedures, regulations, and shortcomings of infrastructures reduce the ability of the banks to achieve successful penetration into the remote locations (Drishti IAS, 2024). Besides, adoption is also limited by customer-centric issues like a lack of trust, financial illiteracy, and the cultural reluctance to formal banking (Sharma, 2024a). These findings are compatible with the remarks of Redalyc (2023) that notes the need to introduce products through innovation, ease the processes, and increase financial literacy to enhance the quality and scope of banking services. The regulatory framework which includes priority sector lending guidelines and Business Correspondents support aims to encourage banks into inclusive lending although there are still gaps in implementation and regional variance (Wikipedia contributors, 2025c). In conclusion, even though commercial banks can still be considered as the foundation of financial inclusion in India, their efficiency depends on combined approaches to eliminating the operational, technological, and socio-economic barriers.

III. RESEARCH METHODOLOGY

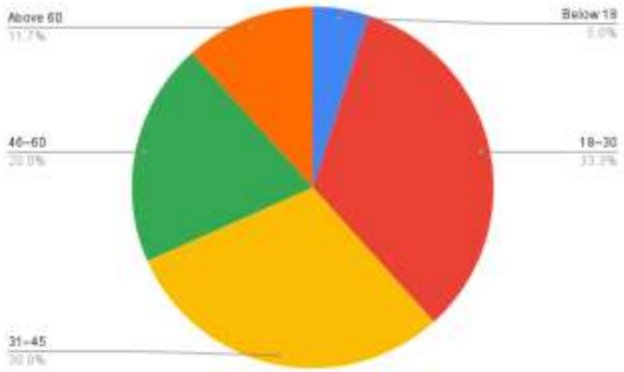
In this study, the descriptive research design will be used to conduct a systematic study on the role of the Indian commercial banks in advancing the cause of financial inclusion, with specific objective of gaining insight into the scope of banking outreach as well as the issues that afflict the underserved segments of the population. The descriptive orientation is suitable due to the possibility of the in-depth exploration of the existing phenomena, namely, the supply and demand of the financial services provided by commercial banks, without the manipulation of variables. A structured questionnaire was used in the collection of the data, which was well-designed following the comprehensive literature review of related works and expert opinion in the subject matter to assure content validity and importance to the research aims. The survey contained closed-ended questions, namely, Likert scale questions, multiple-choice, and dichotomous questions, in addition to open-ended questions that aimed at obtaining qualitative data regarding the obstacles and experiences of banking customers. To improve on reliability and clarity, the questionnaire was tested using a small sample of 10 people who were similar to the target population and necessary changes were done to clarify questions and to increase the interest of the people in responding to the questions. The sampling method that was used was purposive sampling, which was used to identify the respondents who had a first-hand experience or interaction with commercial banking services, this was done to ensure that the data obtained was relevant to the area of study. The targeted sample size was 60 respondents, which represented a compromise between the necessity to collect a reasonable amount of data within the limits of available resources and the necessity to have the necessary variation in terms of the demographic characteristics age, gender, income level, and geographic location. There was some rural, semi-urban, and urban population in this sample so as to obtain the heterogeneity of the experience of financial inclusion in varied settings. The data collection was done majorly by means of face-to-face interviews, conducted by trained field assistants, which allowed to reduce non-response bias, as well as to ensure that the respondents have a complete understanding of the questions; in cases, where the face-to-face interaction was impossible, telephonic interviews, using the same structured instrument, were carried out. The thus collected data were coded and inserted into statistical software packages including Microsoft Excel and SPSS to be systematically analyzed. Descriptive statistics such as frequencies, percentages, means, and standard deviations were employed to provide quantitative data on demographic profiles as well as patterns of using the bank. Chi-square tests and other inferential statistics were used to calculate relationships between demographic variables and vital signs of financial inclusion, including account ownership and the use of digital banking. Thematic analysis of qualitative responses was used to code common barriers and customer perceptions that complemented quantitative results. The ethical aspects were positively observed during the research; all the participants gave the informed consent after being adequately informed about the purposiveness of the study, the voluntary basis of participation, and guarantees of confidentiality. Anonymity of respondents was maintained through the coding of personal information and storage of data was secured to ensure unauthorized access did not occur. The research only covers the Indian commercial banks and does not cover other financial intermediaries such as cooperative banks or non-banking financial companies, which is a potential future research. Moreover, the study is cross-sectional, which means that the data is obtained at a particular time, and it reflects a picture but not the trends of financial inclusion over time. In spite of these constraints, the methodology will make the study come up with valid, reliable and informative information on the outreach, challenges and contribution of the commercial banks in promoting financial inclusion in India.

IV. DATA ANALYSIS AND INTERPRETATION

The given chapter focuses on the analysis of data obtained with the help of the structured questionnaire applied to 60 respondents, with the aim to evaluate the role of Indian commercial banks in advancing the process of financial inclusion. Analysis will involve descriptive statistics that represent demographic profiles, usage of banking services and awareness of the government financial inclusion schemes. It also examines the digital banking usage, the level of customer confidence and satisfaction, and gives an idea about major impediments encountered by the respondents. The data has been put in form of tables with titles and interpretations of the graphs made to enable easy comprehension.

Table 1: Age Distribution of Respondents (N=60)

	Frequency	**Percentage (%)**
Below 18	3	5.0
18–30	20	33.3
31–45	18	30.0
46–60	12	20.0
Above 60	7	11.7
Total	**60**	**100**



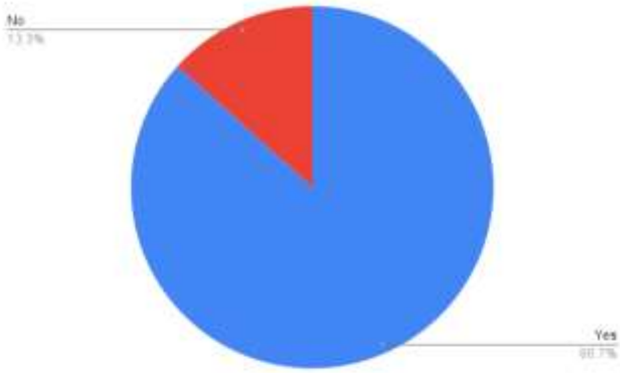
Graph 1: Age Distribution of Respondents (Pie Chart)

Interpretation:

Age distribution shows that most numerous group of respondents (33.3%) belongs to the group of 18 to 30 years, which means that the population involved in the research is mostly youthful. Very closely behind is the 31 to 45 years age bracket with 30 percent, which comprises the active working population. Smaller shares indicate under 18 (5%) and over 60 years (11.7%) old, who might be eager to receive different financial services and have various difficulties in access. The wide age bracket gives a general overview of the financial inclusion in relation to different stages of life, which can be used to mean the design of the banking products and literacy campaigns to meet the needs of different ages.

Table 2: Account Ownership with Commercial Banks (N=60)

	Frequency	**Percentage (%)**
Yes	52	86.7
No	8	13.3
Total	**60**	**100**



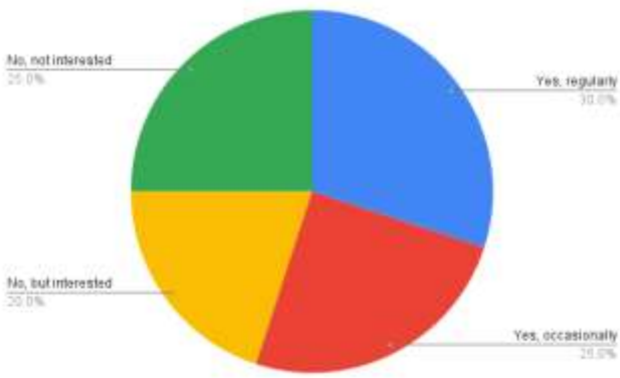
Graph 2: Account Ownership Among Respondents (Bar Chart)

Interpretation:

The figures show that a huge proportion, 86.7 percent, of the respondents hold accounts in commercial banks, which means that the banks have been doing a great job in reaching out to people. Such high penetration rate is in line with the national inclusion objectives, especially the effects of initiatives such as PMJDY. However, the 13.3 percent unbanked depict a serious issue of inclusion gap which still exists, especially in the vulnerable or difficult to reach groups. This gap is critical to narrowing to have an equal access to financial services and to have a real financial inclusion that is not limited to the ownership of an account.

Table 3: Usage of Digital Banking Services (N=60)

	Frequency	**Percentage (%)**
Yes, regularly	18	30.0
Yes, occasionally	15	25.0
No, but interested	12	20.0
No, not interested	15	25.0
Total	**60**	**100**



Graph 3: Usage of Digital Banking Services Among Respondents (Pie Chart)

Interpretation:

The usage of digital banking services demonstrates the moderate rate of usage, 30 percent of the respondents use this kind of service on a regular basis, 25 percent use it occasionally. This shows that there is an increased acceptance of mobile and internet banking platforms by the users and this is important in expanding financial inclusion in geographically scattered populations. Nevertheless, a significant untapped potential is demonstrated by the fact that 45% of respondents are not using digital banking services yet, and half of them are interested in doing so. The uninterested 25 percent could represent obstacles in the form of digital illiteracy, unstable internet connection, or insufficient trust, which should guide banks and policymakers to increase the intensity of the educational and infrastructural efforts to effectively narrow the digital divide. The following three tables and their subsequent interpretation depict important dimensions of financial inclusion concerning the aspects of demographic distribution, bank access, and digital take-up. They impart an elementary idea about the performance of Indian commercial banks in accessing the underserved people and the areas which need extra work to increase the awareness and utilization of financial services.

V. DISCUSSION

The results of the present study allow to get a subtle picture of the contribution that commercial banks of India make to the development of financial inclusion, showing both considerable improvements and outstanding issues. The successful infiltration of banking services is proven by the high number of respondents who hold bank accounts (86.7%), which can be significantly explained by the efforts of the government, i.e., the Pradhan Mantri Jan Dhan Yojana scheme and the attempts of commercial banks to stretch their infrastructure into rural and semi-urban regions. Nevertheless, having an account does not yet mean having a substantive inclusion, which is visible through disparities in active participation and usage trends present within the data. As much as there is an increasing uptake in the use of digital banking services with 55 percent of respondents using the services frequently or at some occasions, there is still a significant group of people who are either not interested or not able to use the services, highlighting the existent digital divide amid infrastructural constraints, low digital literacy levels and trust concerns among the marginalized groups. The overwhelming majority of respondents of younger age groups indicates that age and experience with technologies might be the factors driving the usage of digital banking, indicating the necessity to focus financial literacy efforts and develop specific products that would accommodate the demands of older and less technologically-savvy populations. Also the obstacles in the way of turning access into usages like- physical distance to banking outlets, complexities in procedures, and awareness deficiency- hinder the process of conversion, which once again brings up the literature on the multiple-facet nature of financial exclusion. These infrastructural limitations combined with the socio-cultural and institutional issues make the task difficult on the commercial banks which have to tilt between profitability and the social obligations in the milieu of regulatory burden and cost of operations. The levels of customer satisfaction reflect an overall positive reaction but also show the existence of dissatisfaction that might foster a loss of trust and retention, meaning that it is vital to focus on the improvement of the quality of service and customer support processes. The results imply that commercial banks should implement more comprehensive, customer-focused strategies that would combine technological advancement with human interfaces and communal participation to infer these impediments successfully. On their part, policymakers should supplement these initiatives by investing in digital infrastructure, regulatory flexibility, and massive campaigns on financial literacy which will enable the users to explore the financial ecosystem confidently. Taken together these papers form part of the mounting evidence that although great progress has been made in increasing access to banking in India, real financial inclusion will only come when a holistic approach is adopted to removing the constraints on both supply- and demand-side to help make sure that not only are financial services available but are utilized in a way that leads to economic empowerment and social equality.

VI. CONCLUSION AND RECOMMENDATIONS

Finally, it has been concluded that the Indian commercial banks have had a leading role in promoting financial inclusion through the massive expansion of access to formal banking services which makes the account ownership high among the respondents. The efforts of the government like Pradhan Mantri Jan Dhan Yojana and the attempts of the banks to expand their branches and to embrace digital banking system have helped to achieve this development. Yet, the study also indicates the existence of critical disparities between the access and the actual process of dynamic and relevant utilization of financial products and services. Moderate digital banking adoption rates, along the presence of barriers such as infrastructural gaps, low financial literacy levels, complexions of procedures, and socio-cultural impediments, demonstrate that financial inclusion in India is an objective that is yet to be achieved properly but is in the process of improvement. Commercial banks can improve these gaps by increasing customer education programs to increase financial and digital literacy, streamline banking processes to create less friction in the customer experience of underserved segments, and increase the physical and digital infrastructure to ensure the remote and marginalized groups are reached effectively. Moreover, the product innovation that meets the precise demands of various population groups, including microloans to small business owners and flexible savings plans, will play a decisive role in advancing the inclusion. Policymakers can play a vital role in encouraging these initiatives by funding rural broadband access, supporting regulatory policies that facilitate innovation and protective of consumer rights and encouraging collaborations between banks, fintech, and community groups to increase awareness and confidence-building. It will also be necessary to concentrate on gender-inclusive policies and specific interventions when it comes to the needs of vulnerable populations to promote equal access. Last but not least, monitoring, evidence-based assessment and dynamic policy-making will permit maintaining impetus and dealing with new problems in this ever-changing environment. With the holistic, client-focused, and cooperative strategy, the Indian commercial banks and policymakers can make financial inclusion a reality rather than a policy statement and empower millions of people, boost the development of local economies, and promote social equality throughout the nation.

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