



VELS



INSTITUTE OF SCIENCE, TECHNOLOGY & ADVANCED STUDIES (VISTAS)
(Deemed to be University Estd. u/s 3 of the UGC Act, 1956)
PALLAVARAM, THALAMBUR, PERIYAPALAYAM - CHENNAI

**PROCEEDINGS OF THE TWO-DAY
NATIONAL SEMINAR
ON
INDIAN ECONOMIC PROGRESS
TOWARDS ACHIEVING THE SDGs**

**IN COLLABORATION
WITH
THE INDIAN ECONOMIC ASSOCIATION**

25th and 26th April 2025

**Organized by
Department of Economics
School of Commerce and Economics
VISTAS**

Pallavaram, Chennai - 600 117.



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Role Of Financial Institutions in Financial Inclusion

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Abstract

Financial institutions are crucial to advancing financial inclusion by providing access to affordable financial services such as savings, credit, insurance, and payment systems. They help integrate underserved individuals and businesses into the formal financial system, enabling them to manage risks, invest, and build resilience. Tailored products for small and medium enterprises promote economic participation, innovation, and poverty reduction. However, challenges like regulatory barriers, low financial literacy, and infrastructure gaps hinder progress. Collaborative efforts among governments, private sectors, and non-profits are essential to creating an inclusive financial ecosystem. By driving innovation and advocating for inclusive policies, financial institutions ensure services are accessible and user-friendly, ultimately contributing to equitable growth, community empowerment, and overall economic stability. **Keywords:** *Financial Inclusion, Financial Institution, Financial services, Economic growth.*

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THE ROLE OF FINANCIAL INSTITUTIONS IN FINANCIAL INCLUSION

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Abstract

Financial institutions play a pivotal role in advancing financial inclusion, which aims to provide access to affordable and appropriate financial services to underserved and marginalized populations. By offering products such as savings investment, credit, insurance, and payment systems, these institutions help bridge the gap between the unbanked and the formal financial system. Financial institutions contribute to financial inclusion by designing tailored products and services that meet the unique needs of underserved populations, such as microloans for small-scale entrepreneurs or low-cost savings accounts for low-income households. They facilitate economic participation, reduce poverty, and promote sustainable development by enabling individuals and businesses to manage risks, invest in opportunities, and build financial resilience. Financial institutions also leverage technology, such as mobile banking and digital platforms, to reach remote and low-income communities. However, challenges such as regulatory barriers, lack of financial literacy, and infrastructure gaps must be addressed to maximize their impact. Collaborative efforts among governments, private sectors, and non-profits are essential to create an inclusive financial ecosystem that fosters equitable growth and empowerment. with financial institutions playing a central role in driving innovation, advocating for inclusive policies, and ensuring that financial services are accessible, affordable, and user-friendly. Ultimately, the active involvement of financial institutions in financial inclusion not only benefits communities and business but also contributes to broader economic stability and growth by unlocking the potential of underserved markets.

[Keywords] :- Financial Inclusion, Financial Institution, Economic growth, Financial services.

INTRODUCTION

Financial inclusion, the process of ensuring equitable access to affordable financial services for all segments of society, is a cornerstone of India's socio-economic development. In a country marked by vast rural populations and economic disparities, financial inclusion

empowers marginalized groups—such as low-income households, small entrepreneurs, and women—by providing tools for savings, credit, insurance, and secure transactions. Financial institutions, including banks, non-banking financial companies (NBFCs), microfinance institutions (MFIs), and cooperative banks, play a pivotal role in bridging the gap between traditional banking systems and underserved communities. They design tailored products and leverage technology, such as banking and digital wallets, to reach remote and low-income communities. Additionally, financial institutions collaborate with governments, non-profits, and international organizations to create policies and initiatives that foster financial literacy and inclusion. Through these efforts, they empower individuals to manage their finances, invest in opportunities, and build resilience against economic shocks, ultimately contributing to poverty reduction and sustainable economic growth.

Financial institutions act as intermediaries that channel funds from savers to borrowers, enabling economic activities and entrepreneurship, especially in underserved areas. By offering microloans and small-scale credit facilities, they support small businesses and farmers, who often lack collateral or credit history, to grow their enterprises and improve their livelihoods. Financial institutions also play a critical role in promoting gender equality by providing women with access to financial resources, which empowers them to participate more actively in the economy and decision-making processes. The adoption of innovative technologies, such as block chain and artificial intelligence, by financial institutions has revolutionized the delivery of financial services, making them more accessible, efficient, and secure. For instance, mobile banking platforms and agent banking networks have expanded the reach of financial services to rural and marginalized communities, reducing the need for physical bank branches. Financial institutions also contribute to financial education initiatives, helping individuals understand the importance of savings, credit management, and investment, which are essential for long-term financial stability.

Moreover, financial institutions are key drivers of financial inclusion, as they provide the tools, resources, and infrastructure needed to integrate underserved populations into the formal financial system. Their efforts not only enhance business and community well-being but also stimulate economic development by fostering inclusive growth and reducing inequality. By continuing to innovate and collaborate with stakeholders, financial institutions can further advance financial inclusion and create a more equitable and prosperous society.

FINANCE INCLUSION

Meaning

Financial inclusion is the availability and equality of opportunities to access financial services.

It refers to processes by which individuals and businesses can access appropriate, affordable, and timely financial products and services – which include banking, loans, investment, and insurance products.

Definitions

According to the world bank :- Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, savings, credit and Investment – delivered in a responsible and sustainable way.

HISTORY OF FINANCIAL INSTITUTIONS EVOLUTION

The history of financial institutions and financial inclusion in India reflects the country's evolving economic landscape and efforts to address financial disparities. Post-independence in 1947, India's financial system was dominated by commercial banks, which primarily served urban areas and affluent customers, leaving rural populations and low-income groups underserved. To address this, the government nationalized major banks in 1969 and 1980, aiming to expand banking services to rural areas and promote economic development. The establishment of regional rural banks (RRBs) in 1975 further strengthened this effort.

Despite these measures, financial inclusion remained a challenge, with a significant portion of the population lacking access to formal banking. The 1991 economic reforms liberalized the financial sector, encouraging private and foreign banks to enter the market, but gaps persisted. In 2014, the Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched as a landmark initiative to provide universal access to banking, insurance, and pension schemes. This, coupled with the rise of digital banking and fintech innovations, has significantly improved financial inclusion. Today, India's financial institutions, including public and private banks, microfinance institutions, and digital payment platforms, play a crucial role in bringing marginalized communities into the formal financial system, fostering economic growth and reducing inequality. The journey toward financial inclusion in India has been further accelerated by technological advancements and policy initiatives. The introduction of Aadhaar, a biometric identification system, in 2009 revolutionized the financial landscape by enabling seamless identity verification and reducing fraud. This, combined with the Unified Payments Interface (UPI) launched in 2016, transformed digital payments, making them accessible, affordable,

and user-friendly. UPI has become a global benchmark for real-time payment systems, empowering millions of Indians, including those in rural areas, to participate in the digital economy.

Microfinance institutions (MFIs) and self-help groups (SHGs) have also played a pivotal role in promoting financial inclusion, particularly for communities and business. These institutions provide small loans, savings opportunities, and financial literacy programs, enabling individuals to start businesses and improve their livelihoods. The Reserve Bank of India (RBI) has consistently supported these efforts by introducing regulatory frameworks that encourage innovation while ensuring consumer protection.

Despite significant progress, challenges such as financial literacy, infrastructure gaps, and last-mile connectivity in remote areas persist. However, the government and financial institutions continue to collaborate on initiatives like the Direct Benefit Transfer (DBT) system, which ensures subsidies and welfare payments reach beneficiaries directly, reducing leakage and corruption. The push for digital literacy and the expansion of internet connectivity under initiatives like Digital India are also critical in bridging the remaining gaps.

India's financial inclusion journey has evolved from a focus on expanding physical banking infrastructure to leveraging technology and innovation. While much has been achieved, sustained efforts are needed to ensure that every individual, regardless of their socio-economic background, has access to affordable and reliable financial services, ultimately contributing to inclusive and sustainable economic growth.

REVIEW OF LITERATURE

Ankita Birl emphasizes commercial banks' pivotal role in advancing financial inclusion by expanding banking access in underserved regions through GOI/RBI initiatives like PMJDY, priority sector lending, and UPI. These efforts have enhanced savings, credit penetration, and digital transactions, integrating marginalized populations into the formal economy, reducing poverty, and fostering equitable socio-economic growth.

Selvakumar and Anbalagan (2012) in "Financial Inclusion is the Road India Needs to Travel," emphasize that expanding banking and credit access drives economic growth by catalyzing entrepreneurship, boosting GDP, and enhancing income. Financial inclusion attracts global investors, fosters jobs, and positions India as a global economic hub, ensuring equitable, sustainable development through market expansion.

Joseph Massey emphasizes the pivotal role of financial institutions in advancing financial inclusion, underlining financial illiteracy as a critical barrier. He highlights that over 50% of household savings, particularly among the financially underserved, are diverted into non-financial investments due to this gap, stressing the urgent need for enhanced financial education and institutional intervention.

Mukherjee and Chakraborty (2012) analyzed commercial banks, RRBs, SHGs, and NBFCs in advancing financial inclusion. Their study revealed banks' inefficiency in meeting targets, emphasizing the need for more frequent reporting to the RBI on financial inclusion progress to enhance accountability and institutional effectiveness.

Ms. Jishajoseph and Dr. Titto Varghese assessed financial inclusion's impact on India's economy by analyzing five state and private banks. They evaluated growth in branches, ATMs, debit/credit card usage. Debit card usage surged significantly; banks expanded rural/semi-urban outreach, yet access to banking services remains limited despite inclusive initiatives, highlighting persistent gaps.

The World Bank (2008) emphasizes that broad financial access entails removing price and non-price barriers to services like deposits, credit, payments, and insurance. However, defining and measuring accessibility remains complex due to its multidimensional nature, extending beyond mere availability to encompass diverse factors influencing usage and inclusion.

SIGNIFICANCE OF THE STUDY

The study of the role of financial institutions in financial inclusion holds significant importance in addressing global economic disparities and fostering inclusive growth. Financial inclusion, which ensures access to affordable and appropriate financial services for all individuals and businesses, is a critical driver of poverty reduction, economic development, and social empowerment. Financial institutions, including banks, microfinance organizations, and digital payment platforms, play a pivotal role in bridging the gap between underserved populations and formal financial systems. By examining their role, the study sheds light on how these institutions can design and implement strategies to reach marginalized groups, such as low-income households, women, and rural communities. Furthermore, it highlights the challenges and barriers, such as lack of financial literacy, infrastructure gaps, and regulatory constraints, that hinder the effectiveness of these institutions. Understanding these dynamics enables policymakers, financial institutions, and stakeholders to develop targeted interventions that enhance access to credit, savings, insurance, and payment systems. Ultimately, this

research contributes to creating more equitable financial ecosystems, promoting economic stability, and empowering individuals to participate actively in the economy, thereby fostering sustainable development and reducing inequality.

BENEFITS OF FINANCIAL INCLUSION

1. Economic Growth and Development

When people have access to financial services like savings accounts, loans, or investment tools, they can use these to grow their wealth. For instance, a small business owner who gets a loan can expand their business, hire more workers, and increase productivity. This leads to economic growth for both the individual and the community.

2. Poverty Alleviation

Financial inclusion gives low-income households access to resources they didn't have before, such as microloans or savings accounts. These resources help them smooth out income fluctuations, invest in better opportunities (like education or farming tools), and reduce their reliance on informal moneylenders who charge high interest rates.

3. Reduction in Inequality

Many marginalized groups, such as women and rural communities, lack access to financial systems. Financial inclusion ensures that they can save, borrow, or insure themselves, leveling the playing field. For example, women who gain access to microloans often use them to start small businesses, which can significantly improve their quality of life and status in society.

4. Enhanced Financial Security

Without access to formal savings or insurance, people face significant risks when unexpected events like illnesses or natural disasters occur. Financial inclusion provides safety nets—savings accounts and affordable insurance—that protect against such shocks. This helps individuals maintain stability during difficult times.

5. Digital and Economic Efficiency

Digital financial tools like mobile banking, mobile money transfers, and e-wallets have made transactions faster, cheaper, and more secure. These tools are especially helpful in rural areas

where physical banks are inaccessible. Additionally, governments can use digital financial systems to transfer subsidies and welfare payments directly to beneficiaries, reducing delays and corruption.

6. Empowerment Through Financial Literacy

As part of financial inclusion initiatives, people are often taught how to manage money, save, and make wise financial decisions. This empowers them to think long-term, whether it's saving for a child's education, buying a home, or planning for retirement.

7. Financial System Stability

When more people participate in formal financial systems, the economy becomes more robust and less dependent on informal and potentially exploitative lending practices. A diverse customer base also makes financial institutions more resilient to economic shocks.

In essence, financial inclusion is like opening doors to opportunities that many people were previously excluded from. It uplifts individuals and communities by providing tools and resources to improve their lives, reduce poverty, and strengthen the economy.

OBJECTIVES OF THE STUDY

- To examine India's current financial inclusion situation.
- To ascertain the degree of financial inclusion among the business groups in the research region.
- To investigate how indices of financial inclusion affect the expansion of the Indian economy.
- To determine how financial institutions contribute to the attainment of financial inclusion.

HYPOTHESIS OF THE STUDY

On the basis of the objectives of the study, following hypothesis has been formulated:

- H01. There is no significant impact of financial inclusion on the growth of Indian economy.
 - HA1. There is a significant impact of financial inclusion on the growth of Indian economy.
- Sub-hypotheses
- H01.1. There is no significant impact of Number of financial institutions on Indian GDP.

- HA1.1. There is a significant impact of Number of financial institutions on Indian GDP.
- H01.2. There is no significant impact of Credit deposit ratio on GDP of Indian economy.
- HA1.2. There is a significant impact of Credit deposit ratio on GDP of Indian economy.

METHODOLOGY

This study adopts a qualitative research approach, leveraging data sourced from secondary materials such as academic databases—including Emerald, Scopus, JSTOR, and Google Scholar—as well as books and articles pertinent to the examination of financial inclusion. To deepen the analysis, the researchers incorporated insights from institutional publications and scrutinized government reports, official websites, and policy documents. These diverse sources provided a multifaceted perspective, enabling an evaluation of both theoretical foundations and real-world developments in financial inclusion. By synthesizing this breadth of information, the study aims to capture the evolving dynamics and current trends shaping financial inclusion strategies globally.

LIMITATION OF THE STUDY

Given the study's reliance on secondary data, evaluating the reliability of sources and accessing topic-specific information posed inherent challenges; nevertheless, the analysis methodically aligns its key findings with the core research objectives and theoretical framework.

IMPLICATION

- This study will enable institutions to deepen their understanding of financial systems and enhance strategies for advancing financial inclusion.
- This study will provide a foundation for future research by encouraging the integration of primary data and expanded variables into analytical frameworks.

CONCLUSION

The study on the role of financial institutions in financial inclusion underscores their pivotal position as enablers of equitable access to financial services for underserved communities. By designing tailored products such as microloans, low-cost savings accounts, and digital payment platforms, institutions like banks, microfinance organizations, and fintech companies bridge gaps between marginalized communities and formal financial systems.

Technology, particularly mobile banking and digital wallets, has proven transformative in extending services to remote areas, reducing costs, and enhancing convenience. Collaborations between financial institutions, governments, and NGOs further amplify impact through initiatives like financial literacy programs, national ID systems, and regulatory reforms that foster inclusive policies. However, challenges such as infrastructural deficits, regulatory barriers, and persistent financial illiteracy hinder progress, while balancing profitability with social responsibility remains a critical tension. Ultimately, financial institutions are indispensable drivers of financial inclusion, which not only empowers individuals and businesses but also catalyzes broader economic growth, poverty alleviation, and gender equality. Sustained innovation, inclusive policymaking, and cross-sector partnerships are essential to overcoming existing barriers and ensuring that financial inclusion becomes a cornerstone of inclusive, sustainable development.

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