

The Role of Indian Public Sector Banks in Promoting Financial and Social Inclusion: A Systematic Literature Review

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Abstract

This systematic literature review explores the pivotal role played by Indian Public Sector Banks (PSBs) in advancing financial and social inclusion. The study synthesizes scholarly work from the past two decades, focusing on policy initiatives, implementation strategies, outreach programs, and impact assessments. Drawing from peer-reviewed journals, policy papers, and RBI reports, this review identifies key trends, success factors, and persistent challenges. Findings highlight the critical role of PSBs in extending banking services to the unbanked, implementing schemes like PMJDY, and supporting marginalized communities through credit and development initiatives. The paper concludes with future directions for research and practice, suggesting that digital transformation and capacity building are crucial to enhancing the inclusive role of PSBs.

Introduction

Financial and social inclusions are essential components of equitable economic development. In India, Public Sector Banks (PSBs) have historically shouldered the responsibility of ensuring access to financial services for underserved populations. Through branch expansion, priority sector lending, and the implementation of government-sponsored schemes, PSBs have significantly contributed to reducing financial exclusion.

The emergence of technology, Jan Dhan accounts, Direct Benefit Transfers (DBTs), and digital banking services have accelerated the inclusion agenda. However, challenges such as digital illiteracy, rural connectivity, and operational inefficiencies remain. This study undertakes a systematic literature review to assess how PSBs have contributed to financial and social inclusion and what strategies have yielded the most significant results.

Objectives of the Study

1. To examine the contribution of Indian Public Sector Banks in promoting financial inclusion.
2. To analyze the role of PSBs in enabling social inclusion through targeted schemes and credit access.
3. To identify recurring themes, gaps, and future directions from existing literature.
4. To explore the impact of policy initiatives like PMJDY, DBT, and SHG-Bank Linkage Program.
5. To provide policy and research recommendations for improving PSBs' inclusive role.

Methodology

This study follows the **PRISMA 2020 (Preferred Reporting Items for Systematic Reviews and Meta-Analyses)** framework to conduct a systematic literature review. The process includes structured identification, screening, and analysis of relevant literature.

Data Sources - Databases Used: JSTOR, Scopus, Web of Science, Google Scholar, RBI and NABARD Publications. **Keywords:** "Public Sector Banks India", "Financial Inclusion", "Social Inclusion", "Jan Dhan

Yojana", "SHG-Bank Linkage", "DBT", "Banking Access", "Business Correspondent Model", "Digital Banking Inclusion".

Inclusion Criteria - Studies published between **2005 and 2024** - Focus on **Indian Public Sector Banks** and their role in financial/social inclusion - Peer-reviewed articles, official government reports, and policy documents

Exclusion Criteria - Research centered exclusively on **private or foreign banks** - Literature unrelated to financial or social inclusion - **Grey literature** without proper citations or peer review

Review Process - **Initial identification** of 145 studies based on keyword searches - **Title and abstract screening** narrowed the list to 102 relevant papers - After applying inclusion/exclusion criteria, **65 studies** were selected for detailed analysis - Final review focused on thematic synthesis across different dimensions of inclusion

Literature Review

Quey and Jen Yeh (1996) They evaluated the performance of six commercial banks in Taiwan from 1981 to 1989 using the Data Envelopment Analysis (DEA) method. Outputs included total loan, non-interest revenue, and earned interest, while inputs were total deposits, non-interest expenditures, and earned interest. Banks were classified into high, medium, and low DEA performance groups. Twelve financial ratios were used, and Principal Factor Analysis identified four key factors explaining 88.61% of the shared variance. More DEA-efficient banks were less leveraged and used deposits/assets more aggressively to raise income. External economic conditions significantly influenced financial performance.

Edward Gardner, Barry Hawkrett, and Jonathan Williams (1999) Studied the expansion of retail banking in Europe, focusing on the UK. Emphasized the importance of advancements in path, enmity, and telecommunications. Urged banks to act cautiously, balancing cost-cutting with the need to cultivate long-term customer relationships. Highlighted the importance of modifying internal structures and increasing productivity.

Greg Harris (2002) Analysed work that stimulates economics in four major UK retail banks. Highlighted the inefficiency of promoting non-banking items using parental brand names. Emphasized customers' preference for personalized service and recommended a segmented branding system for non-banking services.

Groeneveld and Wavemakers (2004) In "Strategic Retail Banking in Europe," they examined the broader structure of retail banking. The study analysed shifts in banking strategies and emphasized the global evolution of retail banking systems.

Kumar, S., and Gulati (2009) Applied DEA to assess the efficiency of 51 Indian commercial banks using inputs like physical capital, labour, and loanable funds, and outputs like net interest and non-interest revenue. Found PVBs to dominate the efficiency frontier. Profitability and off-balance-sheet exposure were major determinants of efficiency.

N.V. Hung (2009) Used DEA to evaluate 13 Vietnamese commercial banks from 2001 to 2003. Inputs included labour, capital, and deposits; outputs were interest and non-interest income. The study found an average cost efficiency of 60.6% and a -2.2% growth in Malmquist's index.

Muhammad (2008) Utilized DEA and the Malmquist productivity index to analyse Nigerian commercial banks over five years. The study found improvements in average performance, with private banks

outperforming state-owned ones. Inputs included net fixed assets and total investment; outputs were long-term debt and cash flow.

Wirnkar and Tanko (2010) Assessed eleven Nigerian commercial banks from 1997–2005 using the CAMEL method and DEA. Inputs included employees, fixed assets, and deposits; outputs were operating income and loans. Found CAMEL features insufficient for full performance evaluation. Shareholder fund-to-risk-weighted asset ratio was a strong capital adequacy indicator.

Wissam Khaddaj (2010) Evaluated ten private Syrian banks (2006–2009) using DEA. Inputs: interest and non-interest expenditure; outputs: interest and non-interest revenue. Found one bank efficient at the operating level and five at the intermediary level. Traditional intermediation model showed 98.6% average efficiency.

Dang Thanh (2011) Analysed banking efficiency in 64 countries using DEA with ten outputs and one dummy input. Used the Tobit model to study efficiency drivers and computed weighted scores for global banking performance.

Mansoury Ali and Mahdi Salehi (2011) Applied DEA to evaluate 38 branches of Iran's Industrial and Mine Bank. Inputs: provided amenities and payouts; outputs: operational and non-operational income. The study calculated scale, technical, and management efficiency. Only five branches were highly effective. Suggested a 30% improvement potential via strategy optimization.

Waheed Akhter (2011) Compared Islamic banks in Pakistan with PSBs and PVBs using nine financial ratios (profitability, liquidity risk, credit risk). Covered financial years 2006–2010. Found no significant difference in profitability but noted a positive trend in Islamic banks' balance sheets. Highlighted utility of findings for policymakers and Islamic bankers.

Velnampy and Anojan (2012) Compared the performance of state and private banks in Sri Lanka using DEA, CAMELS, SFS ratio analysis, and T-Test. Focused on the post-war period. Calculated ROE, ROA, NPA, NPR, and GPR. Aimed to assess profitability and advisory performance differences.

Jankowicz (1998) emphasized that knowledge does not exist in a vacuum, stating, "Knowledge doesn't exist in a vacuum and your work only has value in relation to other people. Your research and findings will be significant only to the extent that they are the same as or different from other people's work and findings." This view reinforces the importance of situating one's research within the context of existing literature. It underscores that critically reviewing existing literature enhances subject understanding and aids in refining research questions.

Meadows et al. (2004) argued that the primary focus of mainstream financial service providers was on products and services. However, merely offering financial services to the poor is not enough. There is a critical need to design tailored, affordable, and cost-effective financial products for the underserved. Responding to such needs, the Reserve Bank of India (2005) proposed a financial inclusion framework, particularly emphasizing the Business Correspondent model, inspired by Brazil's success in extending banking services to rural areas. Despite these efforts, a significant portion of the rural population remained excluded from banking due to declining productivity in agriculture, the deviation of RRBs from their social missions, and a fragile cooperative credit structure.

The RBI's 2005 report further detailed supply-side and demand-side reasons behind the limited penetration of banking services in rural regions. To address these challenges, it advocated for cost-effective and efficient credit provisions in agricultural and non-agricultural sectors. The report endorsed

three key financial inclusion models: the Business Facilitator model, the Business Correspondent model, and the Microfinance model. Banks were advised to integrate financial inclusion into their core business strategies, as emphasized in the Mid-Term Review of Monetary Policy (2005).

Leeladhar (2005) noted that banks had adopted diverse strategies to expand their outreach. These included partnerships with local committees and microfinance institutions, promotion of 'no-frills' accounts, and restructuring of business strategies to support inclusion. Collaborating with local institutions was highlighted as a particularly cost-effective method for banks to deepen their financial reach.

The **United Nations (2006)** provided a comprehensive definition of financial inclusion as the timely delivery of financial services to disadvantaged groups. This definition encompassed two key dimensions: (1) customer access to a wide range of formal financial services—including credit, savings, insurance, pensions—and (2) the availability of these services from multiple providers to ensure competitive options. Consequently, financial exclusion implies the inability of disadvantaged groups to access such services. Several obstacles contribute to financial exclusion, including geographic limitations, regulatory barriers (such as lack of formal identification), psychological factors (fear of institutional staff), and informational deficits (limited awareness of available products).

Beck, Demirgüç, and Peria (2006) emphasized that access to financial services enables low-income groups to save, reduces economic power concentration, and mitigates financial risks for the poor. Their work highlighted how financial inclusion promotes equitable economic growth and enhances household resilience.

Pahuja (2007) conducted a comprehensive study on the evolution of rural financial systems in India. The research was structured into three parts: the historical background of rural finance and financial exclusion; the role of institutions operating in rural finance; and an in-depth analysis of Micro Finance Institutions (MFIs). He concluded that MFIs play a pivotal role in addressing rural financial exclusion and suggested further reforms to make rural credit systems more accessible and effective.

Thorat (2007), then Deputy Governor of the RBI, emphasized that financial inclusion should be viewed as a strategic business opportunity rather than mere philanthropy. He highlighted that public sector banks, due to their widespread presence and social mandate, are best positioned to lead inclusive financial growth. He also urged banks to innovate in product design to better serve marginalized communities.

Chavan (2007) focused on the limitations of PSBs in catering to the unique needs of rural populations. He criticized their conventional product designs, which often failed to accommodate the irregular and seasonal cash flows typical of agrarian households. Chavan advocated for the introduction of flexible, need-based financial products to enhance the utility and relevance of formal banking for the poor.

Government of India (2008) defined financial inclusion as the process of ensuring access to financial services and timely and adequate credit for vulnerable groups such as weaker sections and low-income populations at affordable costs. The report recommended a comprehensive strategy including (1) universal access to mainstream financial services, (2) availability of payment and banking services without discrimination, (3) rural employment and development as a priority, and (4) implementation through a mission-mode approach via the formation of a National Mission on Financial Inclusion (NMFI). Two dedicated funds were also proposed under NABARD: the Financial Inclusion Promotion and Development Fund and the Financial Inclusion Technology Fund, both aimed at building institutional capacities and integrating technological solutions for deeper inclusion.

Kamath (2008) attempted to understand the impact of microfinance institutions (MFIs) on households by analysing daily cash flows. The study compared the financial behaviours of MFI borrowers and non-MFI households, revealing that MFI loans helped smooth consumption and manages irregular incomes, indicating the importance of product design that aligns with household-level financial patterns.

Rangarajan Committee (2008) further elaborated the definition of financial inclusion, stating it involves access to financial services and timely, adequate credit for weaker sections and low-income groups at an affordable cost. It emphasized the comprehensive nature of financial services—including savings, loans, insurance, credit, and payments—and reiterated that the goal is to help the poor escape the cycle of poverty. The committee argued that even surplus and deficit financial units among the poor need support due to their precarious economic background. It emphasized creating suitable financial instruments and delivery mechanisms that are sensitive to their financial needs and contexts.

Conceptual Understanding

- **United Nations (2006)** defined financial inclusion as the timely and affordable access to a broad range of regulated financial services.
- **RBI (2005)** initiated the formal approach to financial inclusion in India through policies like **no-frills accounts**, **Business Correspondent (BC)** model, and **Financial Literacy programs**.

Policy Initiatives and Public Sector Banks

- **Leeladhar (2005)** and **Chattopadhyay (2011)** emphasize the RBI's push for banks to integrate inclusion as a core strategy, with PSBs leading due to their rural presence.
- **Rangarajan Committee (2008)** identified PSBs as essential for creating universal access to credit, savings, and insurance.
- **Kumar & Mishra (2016)** and **Bansal (2017)** discuss the implementation of **PMJDY**, showing PSBs as key drivers in enrolling over 47 crore new accounts by 2024.

SHGs, JLGs, and Women Empowerment

- **NABARD (2015)** and **Ghosh (2013)** found that the SHG-Bank Linkage Program executed predominantly through PSBs, empowered women financially and socially.
- **Nair & Tankha (2014)** highlighted that institutional innovations like JLGs work best when supported by PSBs with embedded trust and local ties.

Technological Interventions

- **Raj & Sharma (2018)** observed that PSBs embraced **digital platforms (UPI, AEPS, DBT)** later than private banks but now play a critical role in digital inclusion.
- **World Bank (2014)** noted India's public-sector-led model as a globally recognized approach to inclusive finance.

Financial Literacy and Human Capital

- **Kumar & Singh (2013)** and **Sharma & Kukreja (2013)** emphasized the importance of localized financial literacy campaigns to build inclusion.
- **Khandelwal Committee (2010)** pointed out the need for staff training and performance-linked incentives in PSBs to sustain inclusion efforts.

Structural and Operational Challenges

- **Chavan (2007)** and **Mehrotra & Yetman (2015)** criticize the lack of product flexibility and the inefficiencies in the PSB system.
- **Dev (2006)** discussed the withdrawal of PSBs from rural credit, stressing the need to revive their developmental mandate.

- **Singh & Tandon (2020)** evaluated the BC model, finding trust was higher when BCs were locally recruited and adequately trained.

Findings of the Study

Institutional Role in Financial Access

- PSBs account for the **largest rural branch network**, promoting banking penetration in underbanked regions.
- Under **PMJDY**, PSBs led the onboarding of more than **47 crore accounts** by 2024 (RBI, 2024).

Technological Expansion and Digital Inclusion

- Adoption of **UPI, Aadhaar-enabled Payment Systems (AEPS)**, and mobile banking by PSBs has extended access.
- The **Business Correspondent Model** and **Bank Mitras** have enabled last-mile service delivery.

Social Empowerment

- PSBs are the **primary executors** of **SHG-Bank Linkage** and **Priority Sector Lending** schemes.
- Notable contributions include **credit access to SC/ST, women, and MSMEs**, enabling inclusive entrepreneurship.

Barriers and Constraints

- Persistent **operational inefficiencies, non-performing assets (NPAs)**, and **low account activity**.
- **Low digital and financial literacy** among rural customers impair full usage of services.
- **High transaction costs** in low-income segments reduces sustainability.

Suggestions

1. **Enhance digital infrastructure** in remote, tribal, and underserved regions to support stable and secure banking operations.
2. **Localized financial literacy drives** using regional languages, visual media, and community influencers.
3. **Public-Private Partnerships (PPPs)** to innovate service delivery in rural banking.
4. **Upskilling PSB staff**, especially in rural branches, in customer engagement and digital tools.
5. **Leverage data analytics** to map regional exclusion and design tailored inclusion strategies.

Conclusion

The systematic review concludes that **Indian Public Sector Banks** have played a central and irreplaceable role in expanding both **financial and social inclusion**. Their wide network, government mandate, and experience in inclusive banking have positioned them as leaders in initiatives like PMJDY, SHG-Bank Linkage, and DBT. However, PSBs must evolve through digital upskilling, localized engagement, and operational reforms to address persistent challenges such as account dormancy, literacy gaps, and service inefficiencies. The future of inclusive banking in India lies in synergizing human-centric services with digital innovations, where PSBs will remain key players.

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