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TO STUDY THE IMPACT OF FINANCIAL INCLUSION MEASURES ON OPERATIONAL PERFORMANCE OF BANKS IN HIMACHAL PRADESH

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Abstract

Economic development heavily depends on the banking sector because it collects savings while offering credit services and facilitating financial operations. Financial inclusion is necessary to achieve inclusive economic growth by the upliftment of vulnerable sections of society such as weaker groups, low income groups. The banks play catalytic role in economic development by facilitating financial activities, mobilizing savings, investment, offering credit and promotion of financial inclusion. In Himachal Pradesh where majority of population belongs to rural area, Regional Rural Banks (RRBs) play transformative role in rural development and financial inclusion. The research examines how financial inclusion measures contributes to better bank operational outcomes. RBI policy framework and initiatives, NABARD efforts, Government launched programs and schemes such as PMJDY, PMMY, PMJJBY, financial literacy programs, Business Correspondents, Kisan Credit Card, Self Help Groups etc. are widely implemented financial inclusion measures. Financial institutions gain advantages through increased customer numbers and improved credit recovery rates while experiencing higher savings mobilization. The research serves a critical purpose in assessing the impact of financial inclusion initiatives on banking performance. This research maintains high importance for financial institutions together with policymakers who seek to improve the delivery and operational performance of rural financial services.

Keywords: Financial Inclusion, Regional Rural Banks, Financial Institutions, Banks Operational performance, Financial services

Introduction

A sound financial system is the backbone of nation's economy and society. Access to banking services is widely recognized as a key policy goal of every economy. Economic development heavily depends on the banking sector because it collects savings while offering credit services and facilitating financial operations. To fulfill the diverse need of society it is compulsory to provide atleast basic financial services to masses. Financial inclusion lead to developed nation and balanced society. In India, a large segment of Indian rural inhabitants currently lack access to banking services or suffer from limited banking accessibility. Various financial institutions together with government bodies take initiatives to reduce the financial exclusion gap.

Meaning and Evolution of Financial Inclusion

Financial inclusion in simple words is process of ensuring adequate access of banking services and credit to all sections of society at an affordable cost. Financial inclusion is necessary to achieve inclusive economic growth by the upliftment of vulnerable sections of society such as weaker groups, low income groups.

“Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs- transactions, payments, savings, credit and insurance- delivered in a responsible and sustainable way”- World Bank (2024)

Mondal, S. (2022) “Financial inclusion refers to a process that ensures the ease of access, availability, and usage of the formal financial system.”

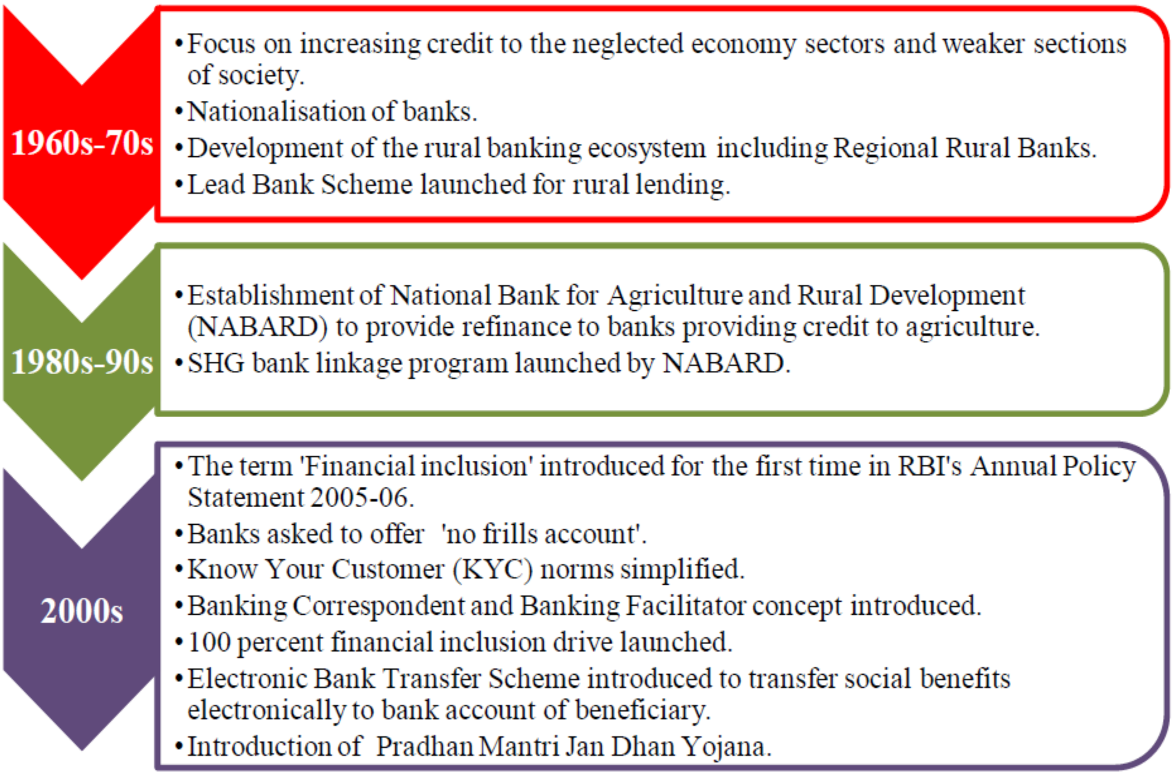

Figure 1: Evolution of the Financial Inclusion Since 1960s

Source: Naik Priya, (2013), Financial inclusion- key to economic and social development, CSR Mandate, June-July

The above figure depicts the different stages of innovations and initiatives taken by the Indian authorities in order to improve the accessibility of financial service to underserved sections of society. In this regard several steps are taken by government, commercial banks and NABARD to fill the gap of financial disparity.

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Role of Financial Institutions in promoting Financial Inclusion

Figure 2: Financial Institutions promoting financial inclusion
Source: (www.nabard.org)

In India, number of financial institutions are working in financial ecosystem. Each among them are contributing towards financial inclusion growth. The banks play catalytic role in economic development by facilitating financial activities, mobilizing savings, investment, offering credit and promotion of financial inclusion.

A. Role of Commercial Banks : Banks are the main components of financial system. Banks act as growth engine of financial activities. Banks offer variety of financial services to their customers ranging from account opening, insurance, deposit, KCC, GCC etc. Besides this, they develop and introduce customized financial services for special customer or section to meet their financial needs. Commercial banks design innovative products and services to farmers, self help groups, small entrepreneurs, women etc. to take care of the needs of diverse people. Commercial banks play key role in implementation of financial inclusion plan and other government initiatives.

B. Role of Regional Rural Banks (RRBs): Regional rural banks came into existence into financial system over four years ago. They are established under regional rural banks act of 1976 and are jointly sponsored by central government, state government and a sponsor bank. As of March, 2025 there are 28 RRBs in India. RRBs are Similar to commercial banks, including accepting deposits, providing loans, and undertaking government and other banking business. In Himachal Pradesh where majority of population belongs to rural area, Himachal Pradesh Gramin Bank (HPGB) a RRB sponsored by Punjab National Bank established in 2013. Currently it has 265 branches in the state providing wide banking services to its diverse customer base. The growth and expansion of branch networks has enabled HPGB to extend its banking activities in unbanked rural areas and mobilise the saving of people. Himachal Pradesh Gramin Bank promoting financial activities through various initiatives like Aadhar enable payment system (AEPS), Atal Pension Yojana (APY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) directly to its customer. HPGB serving other categories through its MSME loans, agricultural loan, non farm loan, KCC in order to foster inclusive growth.

Major Financial Inclusion Measures/programs for Inclusive growth Financial Inclusion

Score: Some studies, like those conducted by the World Bank, use a financial inclusion score based on various indicators, including access to financial services, credit, and digital payments.

1. JAM (Jan Dhan-Aadhar-Mobile) Trinity: This initiative, which links bank accounts, Aadhaar cards, and mobile phones, is seen as a significant step towards financial inclusion.

2. Pradhan Mantri Jan Dhan Yojana (PMJDY): This scheme aims to provide universal access to banking facilities, including basic bank accounts, financial literacy, and social security cover.

3. Business Correspondents (BCs): BCs, who are not formally employed by banks but act as agents, are used to provide banking services in rural and underserved areas.

4. Financial Literacy Initiatives: Government and non-government organizations conduct financial literacy programs to improve awareness and understanding of financial products and services.

5. Kisan Credit Cards (KCCs): These credit cards are designed to provide agricultural loans and credit to farmers, contributing to financial inclusion in the rural sector.

6. SHG-Bank Linkage: Self-Help Groups (SHGs) are linked with banks to provide access to credit and other financial services to marginalized communities.

7. Lead Bank Scheme: This scheme aims to designate a lead bank in each district to ensure that banking services are accessible to all.

8. Priority Sector Lending: Banks are mandated to allocate a certain percentage of their credit to priority sectors, including agriculture, small and medium enterprises, and microfinance.

Objectives

The research investigates how financial inclusion initiatives affect bank operational efficiency in Himachal Pradesh. Through financial inclusion policies and initiatives, researchers aim to assess accessibility to finance bank efficiency.

1. To understand the concept of financial inclusion.
2. To gain insights into the major policies, steps, programs, and projects undertaken by the Reserve Bank of India (RBI), NABARD, and other government authorities in achieving financial inclusion goals in India.
3. To analyse and evaluate the impact of financial inclusion measures on the operational performance of bank branches in Himachal Pradesh.

Literature Review

(Singh Katoch, 2019) Himachal Pradesh Gramin Bank (HPGB) serves as the RRBs for Himachal Pradesh avails credit facilities to individuals who are unable to access formal banking credit. These include factors such as capital strength, quality of assets, efficiency of management, profitability and overall legal compliance solvency. **(Singh and Mohanlal, 2024)** To overcome the pre-existing financial problems of the rural people, RRBs have come up with new products like the agricultural loan, self-help group financing, and microcredit facilities. But they still remain with challenges like, low financial literacy among the customers, low deposit mobilization and increasing non performing assets (NPAs). Consequently, the performance of RRBs usually evaluates by the help of profitability ratios, credit disbursement efficiency and operational performance indicators. The use of advanced technologies, the extent of integration of technologies, and the continuous support of the government remain some of the key factors that will determine the future growth and operations of RRBs in Himachal Pradesh when it comes with a view to effectively catering to the needs of the rural customers. This is a research of RRB's financial performance with respect to the successful factors and challenges that it encountered and the operating improvement techniques that could be implemented. **(Pradhan et al., 2021)** UPI's 2016 launch brought revolutionary digital banking capabilities with it while UPI PAY became available in 2022 to enable feature phone users to make digital payments. The Unified Lending Interface (ULI) announcement in 2024 will simplify rural credit distribution processes which will benefit RRBs operating in Himachal Pradesh. By continuing policy support, the RBI has significantly improved the operational efficiency of the rural banking sector. **(Anagha and Kulkarni, 2023)** Total deposits and advances of the Himachal Pradesh

Gramin Bank (HPGB) are increasing constantly, such that the distribution of credit also increases. The bank was also able to increase its rural customers base through its efficiency in executing two government-launched schemes, namely, Pradhan Mantri Jan Dhan Yojana (PMJDY) and Kisan Credit Card (KCC). **(Singh and Mohanlal, 2024)** The positive impact of financial inclusion programs and digital banking operations does not shield Regional Rural Banks in Himachal Pradesh from multiple operational challenges which diminish their financial results. The high levels of NPAs represent a major problem for these banks because they reduce both their ability to lend money and their profitability. Rural borrowers experience difficulties making loan repayments because their irregular income patterns result in defaulting on their debts. The physical barriers of Himachal Pradesh hinder the construction of banking facilities in distant regions and reduce financial accessibility.

Research Methodology

The research adopts a deductive framework which starts from proven financial inclusion theories and concepts to validate them through secondary data collection. Financial inclusion research is suitable for this approach because many studies have already been conducted while the research aims to confirm or adjust existing concepts in Himachal Pradesh. The descriptive research design used in this study. A macro-level analysis of financial inclusion trends emerges from secondary data which originates from government reports together with RBI and NABARD publications, financial policy documents and academic research.

Findings of the Study

Major Policies, Steps, Programs, and Projects Undertaken by RBI, NABARD, and Other Government Authorities to Achieve Financial Inclusion in India

The development of India's economy depends heavily on financial inclusion so the Reserve Bank of India (RBI) together with the National Bank for Agriculture and Rural Development (NABARD) and other government authorities launched multiple initiatives to expand financial services for underrepresented communities. RBI together with NABARD and other government authorities pursue financial inclusion through policy frameworks, financial assistance programs, digital banking initiatives and rural credit schemes (Pandey and Murugesan, 2024). The following four steps form the basis of financial inclusion initiatives in India:

Policy Frameworks and Regulatory Measures by RBI

RBI is apex institute governing all banks operating in India. RBI formulate and direct all financial authority to manage the banking system in India. The Reserve Bank of India (RBI) has developed multiple policies along with regulatory measures to enhance financial inclusion throughout the country. The Financial Inclusion Plan (FIP) mandated banks to build new branches in unbanked regions for better access to financial services to rural and underprivileged communities. The Reserve Bank of India launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) as a savings account program which brought financial services to millions through RBI guidelines (Ghosh, 2025). The RBI established two new banking entities called Small Finance Banks (SFBs) and Payments Banks (PBs) to offer fundamental banking services and payment solutions to remote locations.

Under the Priority Sector Lending (PSL) norms banks must distribute a specific percentage of their loans toward agricultural development and micro, small, and medium enterprises and weaker social groups. The Business Correspondent (BC) Model introduced banking representatives to carry out services in both rural and unbanked regions (Gupta and Sharma, 2021). The government's banking policies have achieved two major results increasing financial accessibility and expanding banking services throughout India. Such kind of measures help to increase financial inclusion activities.

NABARD's Role in Rural Credit Services and Financial Inclusion

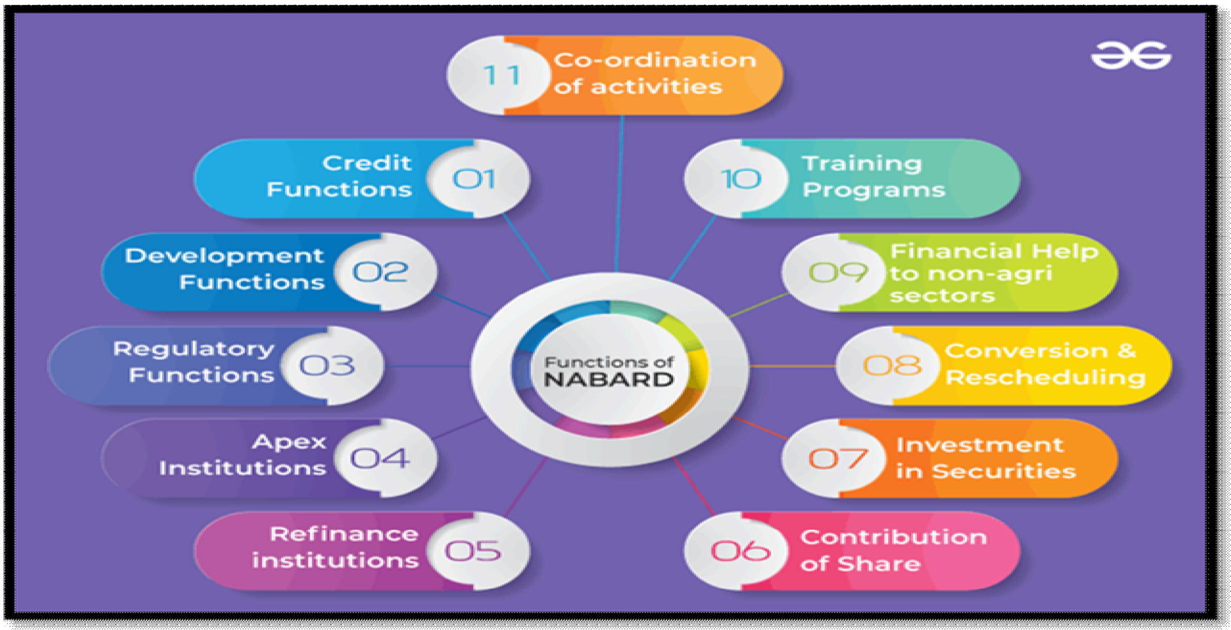

Figure 3: NABARD's
Source: (GeeksforGeeks, 2022)

NABARD is India's apex development financial institutions which started its operations in 1982. NABARD leads the way toward financial inclusion by providing rural credit services and developing capabilities to support financial inclusion goals. The Self-Help Group-Bank Linkage Program (SHG-BLP) created by NABARD enables self-help groups (SHGs) to obtain formal banking services. NABARD launched the Kisan Credit Card (KCC) Scheme to enable farmers to obtain simple credit solutions for their agriculture requirements (Kumar, 2025a). NABARD implements Financial Literacy Awareness Programs (FLAPs) to teach rural people about banking systems and digital payments as well as credit management principles.

Through its refinance support NABARD enables rural banks to expand their lending ability which provides small businesses and farmers with easier access to funds. The Rural Infrastructure Development Fund (RIDF) launched by NABARD serves as a funding mechanism for rural infrastructure projects that enable better connectivity and banking access supporting indirect financial inclusion (Dash and Giridhari Mohanta, 2024). The initiatives have enabled rural communities to gain empowerment while expanding their financial access opportunities.

Government-Led Financial Inclusion Programs

The Indian government launched multiple flagship programs for the public which aim to advance financial inclusion throughout the nation and build balanced growth. Through the Pradhan Mantri Jan Dhan Yojana (PMJDY) the government established a landmark program to give every household access to bank accounts together with insurance and pension options (Pandey and Murugesan, 2024). Through Micro Units Development and Refinance Agency (MUDRA) banks the Pradhan Mantri Mudra Yojana (PMMY) helps small businesses secure loans without requiring security deposits. The Direct Benefit Transfer (DBT) scheme enables bank account-based subsidy and welfare benefit payments which minimizes leakage while enhancing financial transparency. The Stand-Up India Scheme serves the purpose of business creation by offering financial support to women and marginalized populations to launch their ventures. Digital India serves as a vital initiative for financial inclusion through its promotion of digital banking as well as mobile wallets and UPI-based transactions (Dr Sony Vijayan, 2021).

Advancements in Digital Banking and Fintech Inclusion

The implementation of technology throughout banking services has strongly advanced financial inclusion initiatives across India. UPI has transformed digital payment methods by enabling users to perform mobile phone-based transactions in a protected manner. Through the Aadhaar Enabled Payment System (AEPs) rural populations now have banking access for withdrawals and balance checks through biometric authentication (Najeebuddin and Ahmed, 2022). Through its Digital Payment Vision 2025, the RBI works to build digital payment infrastructure while promoting cashless financial transactions. Fintech companies and digital banking solutions are now vital players in financial inclusion by providing digital lending services and savings platforms with financial advisory services. Through BharatNet the government continues to expand internet connectivity throughout rural areas thus providing wider access to online banking (Kumar, 2025a).

Analyzing and Evaluating the Impact of Financial Inclusion Measures on the Operational Performance of Bank Branches in Himachal Pradesh

In Himachal Pradesh (89.97%) of population belong to rural area (Census 2011). Regional rural banks act as major banking service provider in the state. Himachal Pradesh Gramin Bank (HPGB) with its 265 branches throughout the state serving the rural base with its diverse banking services offering. The financial inclusion programs implemented in Himachal Pradesh created substantial effects on bank branches operational performance especially within rural regions. Multiple financial inclusion initiatives such as branch expansion together with digital banking initiatives, credit access programs and financial literacy programs have resulted in improved operational performance including efficiency profitability and customer outreach. Financial inclusion has affected bank branches throughout Himachal Pradesh through these four observed elements:

Expansion of Banking Services and Customer Outreach

The introduction of financial inclusion measures led to an extensive growth of bank branches throughout Himachal Pradesh especially in rural and semi-urban locations. Through PMJDY scheme along with basic savings bank deposit account (BSBDA) banks expanded their services to populations who had no access to banking facilities. Financial services become accessible to remote areas through banking agents under the Business Correspondent Model (BCM). The banking sector experienced improved operational efficiency through greater account creation and increased customer visits to their facilities. The improved accessibility from basic savings bank deposit account (BSBDA) has increased deposit mobilization which supports banks to build stronger financial stability (Gupta and Sharma, 2021). Banking service growth has built trust within the banking system which prompts rural residents to shift from using informal financial channels.

Improvement in Credit Disbursement and Loan Recovery Rates

Financial inclusion enhances both personal and business access to credit facilities which stands as its major beneficial outcome. Himachal Pradesh bank branches use the Kisan Credit Card (KCC) Scheme and Microfinance Programs and Pradhan Mantri Mudra Yojana

(PMMY) to provide financial support to small farmers and entrepreneurs and self-help groups (SHGs) (Yadav, Singh and Velan, 2020). Financial institutions have raised their loan distribution numbers which creates direct positive effects on bank branch earnings. The implementation of Aadhaar-enabled payment systems combined with digital tracking mechanisms through financial service technology has led to enhanced loan recovery rates. Better credit monitoring and structured repayment plans enabled banks to decrease non-performing assets (NPAs) which strengthened their financial stability (Krishan, 2023). Institutional credit availability has become an essential component for rural business growth because it enables enterprises to scale up operations while driving regional development.

Digital Banking and Technological Advancements

Digital banking solutions have brought major operational changes to the bank branches throughout Himachal Pradesh. Customers now benefit from improved banking convenience through Unified Payments Interface (UPI), mobile banking and Aadhaar-linked financial transactions which have reduced their need for physical branches. The implementation of new technology has optimized banking operations through improved transaction speed and decreased paperwork as well as minimal operational expenses. Digital banking advancements have contributed to bank service improvement through accelerated fund transfer speed as well as improved bill payment processes and better financial control capabilities. Digital platforms help banks to sustain better financial records and strengthen security protocols which decreases the chance of fraud and mismanagement (Nagrath and Sood, 2022). The adoption of financial technology by banks in Himachal Pradesh enables them to operate with enhanced efficiency together with a focus on customer satisfaction.

Financial Literacy and Customer Awareness Initiatives

Financial inclusion beyond basic banking access requires customers to have the proper knowledge needed to maximize their use of financial services. RBI together with NABARD and bank-operated awareness programs have established vital financial literacy programs to teach rural people about savings practices along with credit management insurance coverage and investment possibilities (Ghosh, 2025). The financial literacy programs have improved customer financial choices through which they accumulate more savings and manage debt responsibly. Banks receive direct benefits from this transformation since better-informed customers choose formal banking services which produces higher financial transaction volumes. Financial education programs have helped fight bank fraud because customers now understand banking procedures together with security protocols (Dr. Sony Vijayan, 2021).

Banks achieve long-term customer relationships through enhanced financial awareness which creates stable business operations.

Conclusion

The study aimed to assess the influence of financial inclusion programs on banking business activities. This research work has further established that the implementation of financial inclusion has brought about a tremendous positive impact to the operational branch in the State of Himachal Pradesh. Technological advancement in the provision of banking services has ensured that banking transaction is efficient, due to the enhancement of rural banking infrastructure as well as banking correspondents. Customers are gained by the banks thereby reducing their operating costs through the deployment of technological solutions such as Mobile Banking, Aadhaar Enabled Payment System and Internet Banking. Financial inclusion has led to financial account ownership, and better improvement of credit facilities which alongside; the enhancement of banking transactions promoted the banking system. The total implementation of financial inclusion objectives is limited by many challenges such as the lack of infrastructure in rural areas, low financial literacy, and the lack of financial services in remote regions. This study established that financial inclusion processes have several positive effects on efficiency when it comes to banking and credit; besides, there is a positive change in the availability of credit and financial enfranchisement. The challenges of digital illiteracy and limited banking infrastructure together with gender disparities have not prevented financial inclusion from becoming a fundamental instrument to reduce financial disparity and promote rural economic development.

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