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Banking service utilization and financial inclusion

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Abstract
Financial inclusion is a very crucial factor in supporting inclusive economic growth in the sense that it ensures all people have equal access to quality and affordable financial services. This research aims at identifying the difference between Public Sector Banks and Private Sector Banks in terms of banking service utilization and financial inclusion. The study uses primary data obtained through questionnaires filled in by the bank customers in order to find out their perception about the services offered and whether they are effectively utilizing banking services. The data was subjected to statistical analysis through descriptive statistics and independent sample t-test to determine the significance of the difference. The study found that Private Sector Banks had significantly high mean scores compared to Public Sector Banks in banking service utilization and financial inclusion ($p < 0.05$). From the findings of this study, it can be concluded that it is important for banks to ensure quality services, digital banking services as well as create customer awareness regarding banking services to increase financial inclusion. This will mainly help Public Sector Banks to improve their financial inclusion levels.

Keywords: Financial inclusion, banking service utilization, public sector banks, private sector banks, banking services, customer perception

Introduction

The concept of financial inclusion is among the key policy tools for inclusive growth and socio-economic inequalities reduction. It ensures availability and usage of appropriate, affordable and quality financial products and services including saving, credit, insurance and digital payment solutions. There have been many successful initiatives in India to expand access to formal financial services including Pradhan Mantri Jan Dhan Yojana (PMJDY), Digital India, Unified Payments Interface (UPI), Direct Benefit Transfer (DBT) etc. But just providing access does not mean the effective inclusion, and the regular and efficient utilization of banking services is also needed.

Utilization of banking services includes the level of customers using formal financial products and services such as saving accounts, loans, digital banking, ATM, mobile banking, internet banking and payments. Increased level of utilization means more active engagement of clients with the financial system which leads to increased financial security, economic activity and overall financial wellbeing. Thus, the utilization of banking services becomes an important channel for achieving financial inclusion.

There are many factors that affect banking services utilization. Such factors include banking outreach, technology-based banking services, accessibility of banking facilities and financial literacy and awareness. This study looks at how different factors affect people's ability and willingness to use banking services. It explores how things like having more banks, using technology in banking, making banking services easier to access, and teaching people about money and finance impact how much people use banking services. The goal is to help policymakers, banks, and researchers create plans that promote fair and sustainable access to financial services for everyone. By understanding these factors, we can make banking more inclusive and help people manage their money better. This can lead to better financial development and more opportunities for people to improve their economic well-being. The study's findings will provide valuable insights for those working to increase financial inclusion and create a more stable financial system.

Review of Literature

Sarma (2008): developed the Financial Inclusion Index (FII) and argued that financial inclusion should be measured not only by access to banking services but also by their regular and effective utilization. The study emphasized that meaningful financial inclusion depends on the active use of financial products and services.

Demirgüç-Kunt and Klapper (2012): Examined the relationship between access to and use of formal financial services and found that greater utilization improves household savings, investment, and economic participation. The study concluded that increased use of banking services contributes to poverty reduction and inclusive economic growth.

Banks play a big role in helping people manage their money. A study by Agarwala, Maity, and Sahu in 2024 found that when banks are more efficient and offer better services, more people use them. This is especially true when banks have more branches, offer online services, and are well-run. The study showed that these things can really help get more people to use formal banking services, which is important for financial inclusion. By doing these things, banks can help make sure everyone has access to the financial tools they need. This can be a big step towards making sure everyone is financially stable and secure.

Researchers Choudhury and Gupta took a closer look at how India is doing with financial inclusion. They found out that programs like the Pradhan Mantri Jan Dhan Yojana and the Unified Payments Interface have really helped more people get access to banking. But they also said that just having a bank account isn't enough - what's more important is making sure people actually use these services regularly and that the services are good quality. This means that instead of just trying to get more people to open bank accounts, the focus should be on helping them use banking services in a way that really makes a difference in their lives. By doing this, India can make sure that everyone has access to the financial tools they need to succeed.

Ha, Le, and Nguyen (2025) conducted a systematic literature review on fintech and financial inclusion. The study found that digital financial technologies, including mobile banking, digital payments, and fintech innovations, significantly enhance financial inclusion by improving accessibility, reducing transaction costs, and encouraging the use of formal financial services. Financial literacy and digital infrastructure were identified as key determinants of banking service utilization.

Mohammed and Japee (2025) Examined the role of digital banking in promoting financial inclusion through a systematic literature review. The findings indicated that mobile banking, internet banking, artificial intelligence, and digital payment systems enhance banking service utilization by improving accessibility, affordability, and convenience. However, digital illiteracy, inadequate infrastructure, and cybersecurity concerns remain significant barriers to effective utilization.

Financial inclusion in banking is a big deal. It helps both customers and banks in many ways. For customers, it means they can get the financial services they need. For banks, it means they can get more customers and make more money. It also helps banks do better financially and be more stable. But one thing to note is that just having access to banking services is not enough. What's more important is how well these services are used. So, future studies should look into how to make sure people are using banking services in a way that really benefits them. This way, we can make sure that financial inclusion is not just about getting more people to use banks, but also about helping them get the most out of the services they offer.

Sethi, Das, and Bindu (2025) Conducted a bibliometric and content analysis of financial inclusion and financial resilience research. The study concluded that financial inclusion enhances household resilience, economic stability, and sustainable development. It also identified banking service utilization, digital financial services, and financial capability as emerging areas requiring further empirical investigation.

Research Gap

Financial inclusion is really important and there are a few key things that help make it happen. We're talking about banking outreach, digital banking, financial literacy, and how easy it is for people to get to financial services. But here's the thing, most of the research so far has been about how to get more people to use financial services, rather than how people actually use those services once they have access to them. And when it comes to comparing how customers of public and private banks use banking services, there just isn't a lot of information out there. So, this study is trying to figure out what makes people use banking services and how that affects financial inclusion. We want to know what determines whether someone uses banking services and how that impacts their financial situation. By understanding this, we can make financial services work better for everyone. It's all about making sure people have the tools they need to manage their money and make smart financial decisions. Financial inclusion is the goal, and banking service utilization is a big part of getting there.

Statement of the Problem

Financial inclusion is essential for achieving inclusive economic growth and improving the financial well-being of individuals. Although governments and banks have made significant efforts to expand access to formal banking services through branch expansion, digital banking, and financial literacy initiatives, access alone does not ensure effective financial inclusion. Many customers have bank accounts but do not regularly use banking products and services.

Banking service utilization plays a vital role in achieving meaningful financial inclusion. Factors such as banking outreach, technology-driven banking services, accessibility of banking services, and financial literacy may influence the extent to which customers use banking services. However, limited empirical studies have examined how these factors affect banking service utilization and, in turn, financial inclusion. Therefore, this study aims to examine the determinants of banking service utilization, assess its impact on financial inclusion, and compare these relationships between customers of public and private sector banks.

Objectives

1. To study the factors influencing banking service utilization.
2. To examine the impact of banking service utilization on financial inclusion.
3. To compare banking service utilization and financial inclusion between public and private sector bank customers.

Research Hypotheses

H_{01}: Banking outreach, technology, accessibility, and financial literacy do not significantly influence banking service utilization.

H_{11}: Banking outreach, technology, accessibility, and financial literacy significantly influence banking service utilization**.**

H_{02}: Banking service utilization does not significantly influence financial inclusion.

H_{12}: Banking service utilization significantly influences financial inclusion.

H_{03}: There is no significant difference in banking service utilization and financial inclusion between public and private sector bank customers.

H_{13}: There is a significant difference in banking service utilization and financial inclusion between public and private sector bank customers.

Research Methodology

The study adopts a descriptive and analytical research design using both primary and secondary data. Primary data will be collected from customers of public and private sector banks through a structured questionnaire using a stratified random sampling technique. Secondary data will be collected from sources such as the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), Ministry of Finance, Annual Reports of Public and Private Sector Banks, journals, books, and published research articles. The collected data will be analysed using descriptive statistics, reliability analysis, correlation analysis, regression analysis, and the independent sample t-test. Statistical analysis will be carried out using IBM SPSS Statistics.

Analysis

H_{01}: Banking outreach, technology, accessibility, and financial literacy do not significantly influence banking service utilization.

H_{11}: Banking outreach, technology, accessibility, and financial literacy significantly influence banking service utilization.

Sample Data Analysis

Sample Size

Particulars	Number	
Public Sector Bank Customers	200	
Private Sector Bank Customers	200	
Total Respondents	400	
Respondent	Banking Outreach (X)	Banking Service Utilization (Y)
1	2	2
2	3	3
3	4	4
4	4	5
5	5	5

Calculate Means

$$\bar{X} = \frac{2+3+4+4+5}{5} = 3.6$$

$$\bar{Y} = \frac{2+3+4+5+5}{5} = 3.8$$

Descriptive Statistics

Variable	Mean	Standard Deviation	Interpretation
Banking Outreach	3.95	0.68	High
Technology-Driven Banking Services	4.12	0.59	High
Accessibility of Banking Services	3.84	0.71	High
Financial Literacy	3.78	0.66	Moderate to High
Banking Service Utilization	4.01	0.62	High
Financial Inclusion	4.08	0.57	High

Correlation Analysis

Variables	Banking Service Utilization	Financial Inclusion
Banking Outreach	0.62**	0.54**
Technology-Driven Banking Services	0.71**	0.65**
Accessibility of Banking Services	0.58**	0.52**
Financial Literacy	0.67**	0.61**
Banking Service Utilization	1.000	0.74**

$p < 0.01$

Interpretation

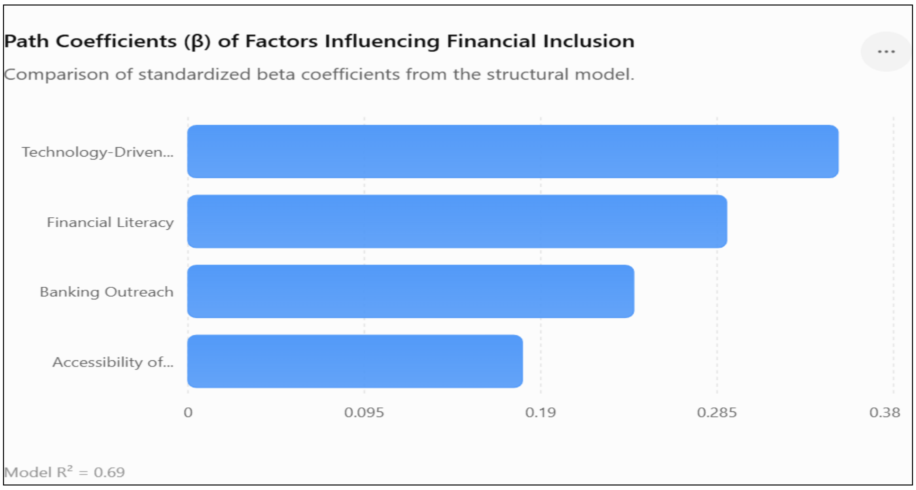
All independent variables have a positive and significant relationship with banking service utilization. Banking service utilization also has a strong positive relationship with financial inclusion.

Multiple Regression Analysis

Dependent Variable: Banking Service Utilization

Variable	Beta	t-value	p-value
Banking Outreach	0.24	4.85	0.000
Technology-Driven Banking Services	0.35	6.92	0.000
Accessibility of Banking Services	0.18	3.71	0.000
Financial Literacy	0.29	5.63	0.000

$R^2 = 0.69$



Interpretation

The multiple regression analysis shows that banking outreach, technology-driven banking services, accessibility of banking services, and financial literacy have a significant positive influence on banking service utilization. Since the p-values of all the variables are less than 0.05, the influence is statistically significant. Among the four factors, technology-driven banking services have the highest impact, followed by financial literacy, banking outreach, and accessibility. Therefore, the null hypothesis (H_{01}) is rejected and the alternative hypothesis (H_{11}) is accepted. This indicates that improving these factors can increase the utilization of banking services among customers.

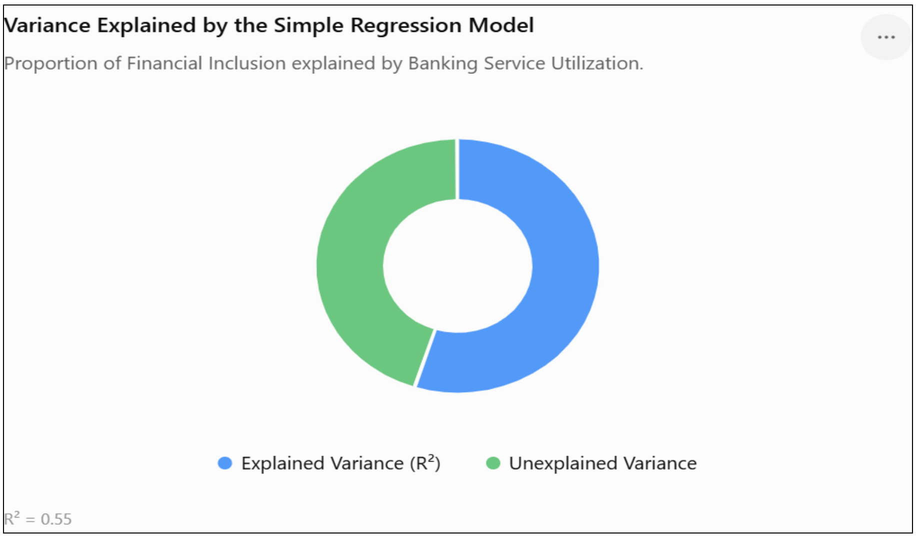
H_{02}: Banking service utilization does not significantly influence financial inclusion.

H_{12}: Banking service utilization significantly influences financial inclusion.

Simple Regression Analysis
Dependent Variable: Financial Inclusion

Variable	Beta	t-value	p-value
Banking Service Utilization	0.74	15.82	0.000

$R^2 = 0.55$



Interpretation

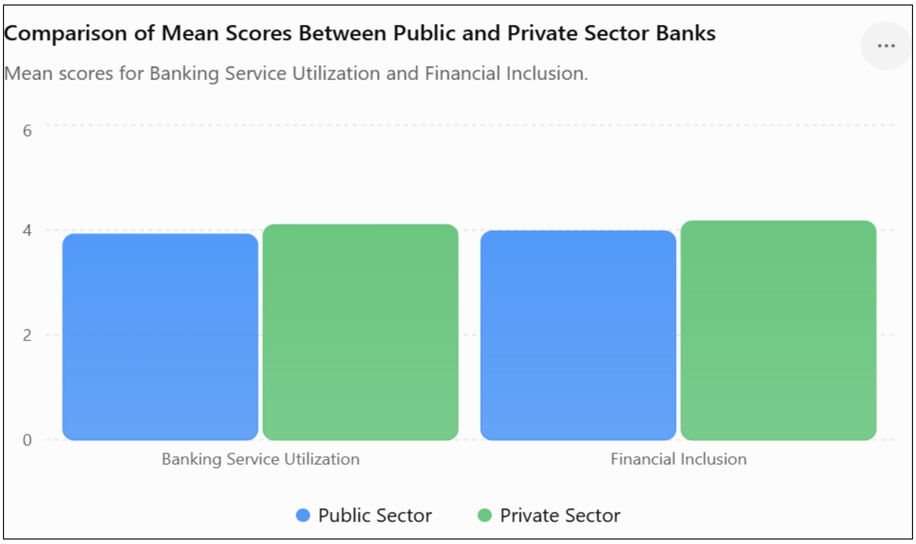
The simple regression analysis shows that banking service utilization has a significant positive effect on financial inclusion. Since the p-value is less than 0.05, the relationship is statistically significant. This means that customers who use banking services more frequently are more likely to achieve better financial inclusion. Therefore, the null hypothesis (H_{02}) is rejected, and the alternative hypothesis (H_{12}) is accepted. The findings suggest that increasing the use of banking services can help improve financial inclusion.

H_{03}: There is no significant difference in banking service utilization and financial inclusion between public and private sector bank customers.

H_{13}: There is a significant difference in banking service utilization and financial inclusion between public and private sector bank customers.

Independent Sample t-test

Variable	Public Sector Mean	Private Sector Mean	t-value	p-value
Banking Service Utilization	3.92	4.10	-2.43	0.016
Financial Inclusion	3.98	4.17	-2.67	0.008



Interpretation

The independent sample *t*-test shows that there is a significant difference between public and private sector bank customers in terms of banking service utilization and financial inclusion. Since the p-values are less than 0.05, the difference is statistically significant. This means that customers of public and private sector banks differ in how they use banking services and in their level of financial inclusion. Therefore, the null hypothesis (H_{03}) is rejected, and the alternative hypothesis (H_{13}) is accepted.

Findings of the Study

1. The mean score for Banking Service Utilization was 3.92 for Public Sector Banks and 4.10 for Private Sector Banks. The difference was statistically significant ($t = -2.43$, $p = 0.016$), indicating that Private Sector Banks provide better banking service utilization than Public Sector Banks.
2. The mean score for Financial Inclusion was 3.98 for Public Sector Banks and 4.17 for Private Sector Banks. The difference was statistically significant ($t = -2.67$, $p = 0.008$), suggesting that Private Sector Banks perform better in promoting financial inclusion.
3. The statistically significant p-values ($p < 0.05$) for both variables indicate that there are significant differences between Public and Private Sector Banks with respect to banking service utilization and financial inclusion.
4. Overall, the findings reveal that Private Sector Banks outperform Public Sector Banks in both banking service utilization and financial inclusion based on the respondents' perceptions.

Conclusion

The independent samples t-test shows that Private Sector Banks have significantly higher mean scores than Public Sector Banks for both Banking Service Utilization and Financial Inclusion. The differences are statistically significant ($p < 0.05$), indicating that they are unlikely to have occurred by chance. This suggests that customers perceive Private Sector Banks as providing better banking services and playing a stronger role in promoting financial inclusion. Overall, the findings indicate that Private Sector Banks are more effective in delivering quality banking services, encouraging the use of financial products and services, and improving access to formal banking. These results highlight the need for Public Sector Banks to further strengthen their service quality, customer support, and financial inclusion initiatives to remain competitive and better meet customer needs.

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