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# **The Role of NBFCs in Promoting Financial Inclusion Among Economically Weaker Sections in India**

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**Abstract:** *The Economically Weaker Segment (EWS) in India comprises individuals and families from the unreserved category earning less than ₹1 lakh annually. With a dedicated 10% reservation in the general category, the EWS initiative aims to uplift this group through targeted financial inclusion strategies. Financial inclusion ensures access to essential financial services like credit, insurance, savings, and payment mechanisms, critical for economic empowerment and poverty alleviation. Government schemes such as Pradhan Mantri Jan Dhan Yojana (PMJDY), Atal Pension Yojana, and Pradhan Mantri Mudra Yojana are instrumental in this effort. This study specifically examines the role of Non-Banking Financial Companies (NBFCs) in enhancing financial access among economically disadvantaged populations. Through a structured survey conducted in rural and semi-urban areas of Coimbatore district, the study evaluates awareness, usage, satisfaction levels, and the impact of NBFC services on the financial well-being of the EWS. The findings underscore the importance of NBFCs in filling the service gaps left by traditional banks, promoting financial literacy, and offering accessible and customized financial products to marginalized communities.*

**Keywords:** *NBFC, Financial Inclusion, Economically Weaker Section, Financial Services, Rural Finance, Financial Literacy*

## **1. INTRODUCTION**

India's socio-economic landscape is marked by significant disparities in income, education, healthcare, and access to financial services. Among the most affected groups are the Economically Weaker Sections (EWS) and Socially and Economically Backward Classes (SEBC). These communities suffer from systemic poverty, limited access to quality education and healthcare, malnutrition, and restricted economic opportunities. The Indian government, through its reservation policies and welfare schemes, has recognized the need to support these groups, particularly through financial inclusion.

Financial inclusion is defined as the process of ensuring access to appropriate financial products and services needed by all sections of society, especially the vulnerable and low-income groups, at an affordable cost. It encompasses a range of services including savings, credit, insurance, pensions, and payment facilities. Traditional banks often struggle to serve these segments due to rigid operational structures, high documentation requirements, and limited reach in rural and remote areas. This gap has been increasingly addressed by NBFCs, which bring innovation, flexibility, and tailored solutions to the financial sector.

NBFCs are financial institutions that provide banking-like services without holding a banking license. They play a crucial role in lending, asset financing, and financial advisory, targeting segments traditionally ignored by mainstream banks. Their ability to reach last-mile customers through innovative delivery mechanisms has positioned them as pivotal agents of change in India's financial inclusion narrative.

This paper seeks to explore how NBFCs contribute to financial inclusion for the economically backward population. It assesses their effectiveness, highlights challenges, and suggests measures for maximizing their impact.

## **2. LITERATURE REVIEW**

Numerous studies have highlighted the importance of financial inclusion in achieving inclusive growth and reducing poverty. According to the Reserve Bank of India, financial inclusion is a key driver of economic development, as it facilitates efficient allocation of resources, improves livelihood opportunities, and reduces reliance on informal lending sources.

Researchers like Demirguc-Kunt and Klapper (2013) have found that access to formal financial services can improve household welfare, boost savings, and promote investment in education and health. In India, the government has launched several initiatives to enhance financial inclusion, including the PMJDY, which aims to provide every household with a bank account.

NBFCs have emerged as significant contributors to this effort. Their decentralized operations, use of digital platforms, and flexible product offerings have allowed them to serve rural and semi-urban populations more effectively than traditional banks. Studies by NABARD and the World Bank note that NBFCs have a better understanding of local socio-economic conditions and can therefore design products that align with customer needs.

## **3. OBJECTIVES OF THE STUDY**

The primary objectives of this study are:

- To analyze the awareness and understanding of NBFC products among economically weaker sections.
- To examine how economically backward groups, utilize NBFC services compared to traditional banks.
- To evaluate the impact of NBFC services on financial behavior and economic well-being.

## **4. RESEARCH METHODOLOGY**

The study follows a descriptive research design aimed at understanding the characteristics, trends, and outcomes related to the use of NBFC services by economically weaker segments. A structured questionnaire was developed and distributed among residents of rural and semi-urban areas of Coimbatore district, including Podanur, Malumichampatty, Vellore, and Irugur.

### **Sampling and Data Collection:**

- Sample Size: 77 respondents
- Sampling Method: Convenience sampling
- Data Collection Tool: Structured questionnaire (both closed and open-ended questions)

The questionnaire covered topics such as frequency of banking usage, awareness of NBFCs, satisfaction with NBFC services, and perceived impact on financial well-being.

## **5. ANALYSIS AND INTERPRETATION**

### **Bank Account Usage:**

- 80% of respondents use bank accounts regularly.
- 12% use them occasionally, while the rest rarely access their accounts.

### **Purpose of Banking Services:**

- 67% use online and mobile banking.
- 35% use banks for customer service.
- 30% rely on ATM/branch accessibility.
- Very few consider interest rates or financial products as key factors.

#### **Awareness of NBFCs:**

- The majority of respondents learned about NBFCs through friends and family, indicating the influence of social networks.

#### **Satisfaction with NBFC Services:**

- 35% are fairly satisfied, 29% satisfied, and only 10% fully satisfied with NBFC services.

#### **Comparison with Traditional Banks:**

- 41% believe there's no significant difference between NBFCs and banks.
- 36% find NBFC services more accessible.
- 13% feel NBFCs are easier to approach for services.

#### **Impact on Financial Situation:**

- 45% reported an improvement in their financial situation.
- 31% experienced no change.
- 22% reported significant improvement.

#### **Specific Benefits Gained:**

- 50% improved financial management.
- 40% increased savings.
- 35% used NBFC services during emergencies.
- 28% started new businesses.
- 25% expanded existing businesses.
- 12% used NBFC credit for house construction.

#### **Perception of NBFC's Role in Financial Inclusion:**

- 75% rated NBFCs' role as excellent.
- 25% rated it as fair.

#### **Inference**

The findings indicate a high degree of banking usage among respondents, signifying an established foundation for financial inclusion. However, occasional users present an opportunity for NBFCs to deepen engagement. The awareness of NBFCs is largely driven by personal referrals, highlighting the need for community-based outreach strategies.

Customer satisfaction with NBFC services is moderate, suggesting that while the services are accessible, there is room for improvement in service delivery, transparency, and customization. The comparison with traditional banks reveals that NBFCs are viewed as more flexible and accessible, which positions them favourably for further expansion into underserved areas.

The data also shows that NBFCs have made a positive impact on users' financial behavior, particularly in managing finances, increasing savings, and supporting entrepreneurial activities. These outcomes are aligned with the core objectives of financial inclusion.

## **6. MANAGERIAL IMPLICATIONS**

**Enhance Community Engagement:** Given that awareness about NBFCs primarily spreads through word-of-mouth, NBFCs should invest in community-based marketing, including financial literacy camps, peer educator programs, and referral incentives.

**Differentiate Services from Traditional Banks:** NBFCs should clearly communicate their unique value propositions, such as faster credit processing, minimal documentation, and doorstep services, especially in regions where traditional banks fall short.

**Improve Service Quality:** To enhance satisfaction levels, NBFCs must focus on customer experience, grievance redressal mechanisms, and product innovation. Regular customer feedback loops can guide service improvements.

**Promote Financial Literacy:** While users are engaging with NBFC services, a gap remains in understanding how to fully leverage them. Tailored financial literacy programs can increase financial efficacy and deepen customer relationships.

**Leverage Technology:** Digital platforms and mobile-based services can expand NBFC reach while reducing operational costs. Training customers to use digital tools will also promote long-term inclusion.

## 7. CHALLENGES FACED BY NBFCs

**Regulatory Constraints:** NBFCs operate under different regulatory standards compared to banks, which sometimes limits their operations. Harmonizing regulations while maintaining operational flexibility is essential.

**Access to Low-Cost Funds:** NBFCs often struggle with higher borrowing costs, which restricts their ability to lend affordably. Access to cheaper credit lines or refinancing windows could enhance their competitiveness.

**Risk Management:** Serving high-risk segments without traditional credit histories requires robust risk assessment frameworks. Leveraging data analytics and AI can help manage credit risk more effectively.

## 8. CONCLUSION

Financial inclusion for economically weaker sections is a fundamental step toward achieving equitable and sustainable development. NBFCs, with their innovative approaches and community-oriented services, have emerged as vital actors in this mission. By reaching underserved populations, offering customized financial products, and promoting financial literacy, NBFCs bridge the gap left by conventional banks.

The study reveals that while NBFCs have made commendable strides, there remains significant potential for improvement. Increasing customer satisfaction, expanding outreach, enhancing financial literacy, and addressing operational challenges will be crucial in amplifying their impact.

As India continues its journey toward inclusive growth, NBFCs will remain indispensable partners. With strategic support from policymakers, financial regulators, and communities, NBFCs can help transform the financial landscape for millions of economically disadvantaged individuals.

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