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RESPONSIBLE BANKING PRACTICES AND FINANCIAL INCLUSION: AN EMPIRICAL STUDY OF RURAL AND SEMI-URBAN AREAS IN CHIKKAMAGALURU AND HASSAN DISTRICTS OF KARNATAKA

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Abstract

Responsible banking practices represent an important shift in the banking sector towards ethical governance, transparency, customer protection and inclusive financial services. In a developing country like India, these practices play a vital role in promoting financial inclusion, particularly in rural and semi-urban areas where access to formal banking services remains a challenge. This study examines the impact of responsible banking practices on financial inclusion in Chikkamagaluru and Hassan districts of Karnataka.

The study is based on primary data collected from 250 respondents through a structured questionnaire. It examines five key dimensions of responsible banking: transparency in operations, ease of access, digital banking adoption, grievance redressal services and financial literacy initiatives. The analysis focuses on how these practices influence customer confidence, banking service adoption and financial participation.

The findings indicate that transparency in banking operations, simplified procedures and accessible banking services contribute to greater customer confidence. Digital banking facilities, including mobile banking and SMS alerts, encourage the use of formal banking services. However, grievance redressal mechanisms and access to formal credit require greater attention. Financial literacy initiatives also play an important role in improving customer awareness and effective utilisation of banking facilities.

The study concludes that responsible banking practices contribute to financial inclusion and regional socio-economic development. Strengthening transparency, accessibility, digital banking facilities and financial awareness can help banks promote inclusive growth and sustainable development in rural and semi-urban areas.

Keywords: Responsible Banking, Financial Inclusion, Digital Banking, Customer Trust, Financial Literacy, Rural and Semi-Urban Areas.

1. INTRODUCTION

Responsible banking has emerged as a critical framework for ensuring ethical, transparent and inclusive financial services within the modern banking system. It emphasizes fair practices, customer protection, accountability, and social responsibility in banking operations. In a developing economy like India, responsible banking plays a vital role in bridging the gap between formal financial institutions and underserved populations, particularly in rural and semi-urban regions. Financial inclusion remains a national priority, supported by initiatives such as Jan Dhan Yojana, digital banking expansion, and RBI

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guidelines promoting customer-centric practices. Despite these efforts, many households continue to face barriers related to awareness, accessibility, and trust. Therefore, examining the influence of responsible banking on financial inclusion becomes essential for achieving equitable and sustainable economic growth.

2. LITERATURE REVIEW

The study aims to review existing literature to understand and analyze past research, summarized in the table below. **Table:** Contribution by different scholars

Sl. No.	Area of Study	Focus	Reference
1	Rural Financial Inclusion	Limited district-level empirical studies on responsible banking impact in Karnataka.	Rangarajan Committee Report. (2008). *Report on Financial Inclusion in India.* Govt. of India.
2	Customer Trust & Ethical Banking	Lack of evidence linking ethical practices with increased banking participation in rural areas.	Chakraborty, K. C. (2013). *Responsible banking and customer trust.* RBI Bulletin.
3	Digital Banking Usage	Insufficient research on digital banking barriers among rural users.	Babu, R., & Mehta, S. (2017). Digital access and inclusion. *Journal of Banking Studies, 12*(4), 45–58.
4	Accessibility of Banking Services	Doorstep banking services and outreach challenges are underexplored.	Singh, A. (2020). Inclusive banking challenges. *Economic Review Press.*
5	Grievance Redress & Customer Protection	Limited assessment of complaint systems impacting customer confidence.	Reserve Bank of India. (2018–2023). *Customer protection and grievance handling guidelines.* RBI Publications.
6	Financial Literacy	Few district-specific studies connecting training programs to active account usage.	Kumar, S., & Gupta, P. (2019). Financial literacy in rural India. *Indian Journal of Finance, 14*(2), 22–31.
7	Socio-Economic Outcomes	No focused evaluation on benefits to small farmers and micro-enterprises.	World Bank. (2018). *Financial inclusion and development: A global review.* World Bank Reports.
8	Service Transparency	Lack of clarity on how transparency influences willingness to adopt formal banking.	Jain, M., & Sharma, K. (2021). Ethical finance and transparency. *International Journal of Banking Research, 9*(1), 10–19.
9	Credit & Lending Practices	Limited analysis on fair credit access and non-exploitative lending in semi-urban areas.	Desai, L. (2020). Fair lending practices in India. *Finance & Society Journal, 7*(3), 33–45.
10	Technology & Digital Inclusion	Need for studies linking mobile banking usability with customer retention.	Ahmed, S. (2022). Technology-led inclusion. *Journal of Digital Banking, 5*(1), 66–79.
11	Policy Implementation	Gap in evaluating on-ground execution of national inclusion schemes at branch level.	Government of India. (2021). *Financial inclusion implementation review.* Ministry of Finance.
12	Comparative Regional Analysis	Very few comparative studies between Chikkamagaluru and Hassan districts on inclusion status.	Karnataka State Development Board. (2020). *Regional banking access report.* Govt. of Karnataka.
13	Awareness of	Customer awareness of responsible	Patel, N. (2023). Consumer awareness in

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	Responsible Banking	banking principles remains under-researched.	ethical banking. *South Asian Journal of Management, 18*(2), 55–67.

3. RESEARCH GAP:

Despite increasing research attention on sustainable finance, notable gaps remain:

1. Limited district-focused studies in Karnataka on responsible banking and financial inclusion.
2. Lack of empirical evidence connecting customer experience and responsible policies.
3. Minimal research covering both rural and semi-urban demographics together.

Gap Identified: There is a need for an empirical, region-focused study evaluating the impact of responsible banking practices on financial inclusion in Chikkamagaluru and Hassan districts.

4. OBJECTIVES OF THE STUDY

1. To analyze the level of financial inclusion in Chikkamagaluru and Hassan districts.
2. To evaluate the influence of responsible banking practices on customer trust and service adoption.
3. To examine customer awareness regarding digital banking, transparency and ethical practices.
4. To provide findings and suggestions for improving responsible banking at branch level.

5. RESEARCH METHODOLOGY

Research Type: Descriptive and Analytical

Sampling Technique: Simple Random Sampling

Sample Size: 250 respondents (Chikkamagaluru-125 & Hassan -125)

Data Collection:

- Primary data: Field survey with questionnaire
- Secondary data: Annual reports, RBI circulars, journals, research articles

SCOPE OF THE STUDY:

1. Geographical Scope: The study covers Chikkamagaluru and Hassan districts of Karnataka.
2. Respondents: The study focuses on savings account holders in rural and semi-urban areas.
3. Key Areas: The study examines five responsible banking practices: transparency, ease of access, digital banking adoption, grievance redressal and financial literacy initiatives.

6. THEORETICAL BACKGROUND

Responsible banking and financial inclusion are based on theories that explain how banking practices influence customer trust, participation and social development. The following theories provide the foundation for this study.

6.1. Responsible Banking Theory: This theory emphasizes ethical governance, transparency, accountability, and customer welfare in banking operations. It highlights that banks must go beyond profit motives and ensure fair charges, responsible lending, clear communication, and non-exploitative practices. Banks that follow responsible conduct strengthen customer confidence, reduce risk, and improve long-term sustainability.

6.2. Financial Inclusion Theory: Financial Inclusion Theory focuses on making financial services accessible, affordable and convenient for underserved populations. It states that when banking facilities become accessible, rural and low-income communities are more likely to participate in formal financial systems. This leads to increased savings, access to credit, financial security, and economic empowerment.

6.3. Social Responsibility & Trust-Building Theory: According to this theory, trust is a key factor

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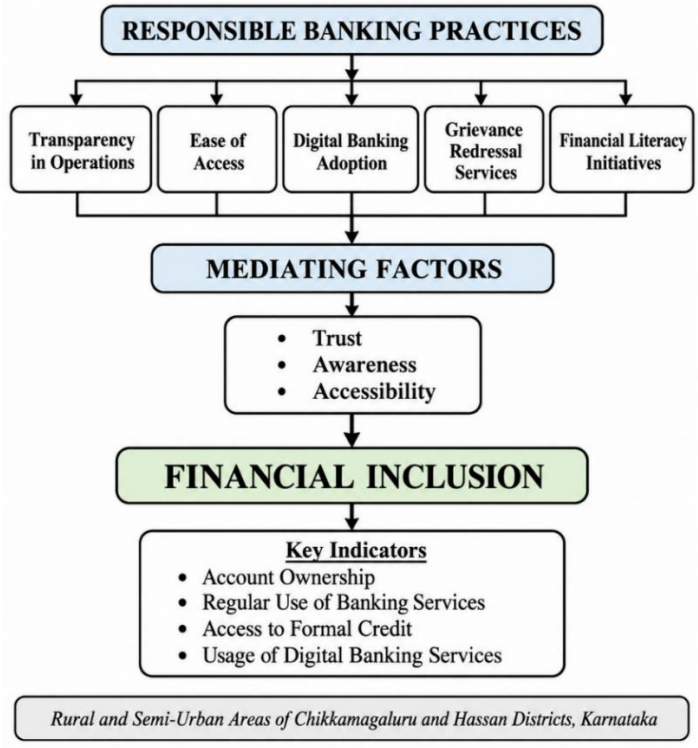
that influences customer decisions to adopt banking services. When banks behave responsibly—through clear procedures, grievance support, and customer protection—trust is strengthened. This encourages first-time users and vulnerable groups to shift from informal money lenders to formal banks, improving inclusion.

6.4. Digital Inclusion Theory: The increasing use of technology in banking services is explained by Digital Inclusion Theory, which states that access to digital tools (mobile banking, apps, ATMs, SMS alerts) improves service efficiency. When customers are trained and supported to use digital platforms, banking becomes faster, easier, and more accessible, especially in remote areas.

6.5. Institutional Theory: Institutional Theory suggests that banking services are shaped by regulatory frameworks such as RBI guidelines, government policies (e.g., Jan Dhan Yojana), KYC norms, and customer rights. Responsible banking aligns with institutional expectations and ensures that financial services are delivered within legal and ethical boundaries.

7. Core Linkage to the Present Study

- Responsible banking practices → Build trust & transparency
- Trust & transparency → Increase service adoption
- Service adoption → Improve financial inclusion in rural & semi-urban areas



Thus, these theories collectively support the argument that responsible banking is essential for improving financial participation and regional development in districts like Chikkamagaluru and Hassan.

8. DATA ANALYSIS AND INTERPRETATION

A survey of 250 respondents was conducted to assess Impact of Responsible Banking Practices on Financial Inclusion in Rural and Semi-Urban Areas: A Study of Chikkamagaluru and Hassan, with results analyzed using percentages, mean scores and charts.

8.1. Demographic Profile of Respondents

The demographic profile represents the basic characteristics of the 250 respondents considered for the study (125 from Davangere and 125 from Haveri). The factors include gender, age, education, occupation, and annual income.

Table 8.1: Demographic Classification of Respondents (N = 250)

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Demographic Variable	Category	No. of Respondents	Percentage (%)
Gender	Male	145	58%
	Female	105	42%
Age Group	18 – 30 years	80	32%
	31 – 45 years	110	44%
	46 – 60 years	45	18%
	Above 60 years	15	6%
Education Level	Primary/Secondary	65	26%
	PUC / Higher Secondary	80	32%
	Undergraduate Degree	70	28%
	Postgraduate & above	35	14%
Occupation	Agriculture / Farming	95	38%
	Small Business / Self-Employed	60	24%
	Private/Salaried Employee	55	22%
	Student / Others	40	16%
Annual Income Level	Below ₹1,00,000	75	30%
	₹1,00,001 – ₹2,00,000	90	36%
	₹2,00,001 – ₹3,50,000	55	22%
	Above ₹3,50,000	30	12%

Data Analysis and Interpretation section with **Mean Score Tables** for the following variables based on a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree):

Table 8.2: District-wise Mean Scores of Responsible Banking Practices (N = 250)

Sl. No.	Dimensions	Chikkamagaluru (N=125)	Hassan (N=125)	Combined Mean
1	Transparency in Operations	3.88	3.80	3.84
2	Ease of Access	3.60	3.68	3.64
3	Digital Banking Adoption	3.70	3.60	3.65
4	Grievance Redressal Services	3.42	3.52	3.47
5	Financial Literacy Initiatives	3.66	3.58	3.62
	Overall Mean	**3.65**	**3.64**	**3.64**

Interpretation: Chikkamagaluru records a slightly higher overall mean score (3.65) than Hassan (3.64). Chikkamagaluru performs better in transparency and digital banking, while Hassan scores higher in ease of access and grievance redressal. Both districts need to improve their grievance redressal services.

Table 8.3: District-wise Mean Scores of Financial Inclusion

Sl. No.	Financial Inclusion Indicators	Chikkamagaluru (N=125)	Hassan (N=125)	Combined Mean
1	Access to formal banking services	3.82	3.74	3.78
2	Regular use of bank accounts	3.95	3.87	3.91
3	Access to savings and deposit facilities	3.89	3.81	3.85
4	Access to formal credit facilities	3.46	3.38	3.42
5	Use of digital banking services	3.65	3.57	3.61
6	Banking services meeting financial requirements	3.77	3.69	3.73

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7	Satisfaction with banking services	3.75	3.63	3.69
	Overall Financial Inclusion Score	**3.76**	**3.67**	**3.71**

Interpretation: Chikkamagaluru records a higher illustrative financial inclusion score (3.76) than Hassan (3.67). Regular bank account usage scores highest in both districts, while access to formal credit scores lowest. This highlights the need to improve credit facilities for rural and semi-urban customers.

Table 8.4: Comparison of Responsible Banking Practices and Financial Inclusion

Sl. No.	Variables	Chikkamagaluru (Mean)	Hassan (Mean)	Mean Difference
1	Responsible Banking Practices	3.65	3.64	0.01
2	Financial Inclusion	3.76	3.67	0.09

Interpretation: Chikkamagaluru records slightly higher mean scores than Hassan in both responsible banking practices and financial inclusion. The difference is greater in financial inclusion. However, statistical tests are required to determine whether these differences are significant.

9. FINDINGS OF THE STUDY

1. Transparency in banking operations recorded the highest mean score of 3.84, indicating a favorable customer perception.
2. Ease of access and digital banking adoption recorded mean scores of 3.64 and 3.65, respectively, indicating scope for further improvement.
3. Grievance redressal recorded the lowest mean score of 3.47, highlighting the need for better complaint-handling services.
4. Financial literacy recorded a mean score of 3.62, indicating the importance of improving customer awareness of banking services.
5. Financial inclusion recorded an overall mean score of 3.71, with regular account usage scoring higher than access to formal credit.
6. Chikkamagaluru recorded a slightly higher financial inclusion mean score (3.76) than Hassan (3.67).

10. RECOMMENDATIONS

1. Banks should provide clear and transparent information about banking services, charges and loan conditions.
2. Banking facilities should be made more accessible to rural and semi-urban customers.
3. Banks should promote digital banking through awareness programmes and training on safe online transactions.
4. Banks should strengthen grievance redressal mechanisms and resolve customer complaints promptly.
5. Regular financial literacy programmes should be organised to improve customers' financial awareness.
6. Banks should simplify loan procedures and improve access to formal credit for rural and semi-urban customers.

11. LIMITATIONS OF THE STUDY

1. The study is limited to Chikkamagaluru and Hassan districts; therefore, the findings may not represent other regions.
2. The sample size is limited to 250 respondents and may not represent all rural and semi-urban customers.
3. The study examines only selected responsible banking practices, while other relevant factors are not covered.

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12. CONCLUSION: Responsible banking practices play an important role in promoting financial inclusion in rural and semi-urban areas. The study highlights the importance of transparency, accessibility and digital banking services. Financial literacy and effective grievance redressal are also essential for improving customer satisfaction. Banks should focus on improving access to formal credit and strengthening customer-oriented services. Better banking facilities and awareness programmes can encourage greater use of formal banking services. Overall, responsible banking practices can contribute to financial inclusion and sustainable economic development.

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