Advanced International Journal of Multidisciplinary Research
E-ISSN: 2584-0487
editor@aijmr.com
Volume 4, Issue 1, January-February 2026
CrossRef DOI: 10.62127/aijmr.2025.v04i01.1162

Digital Banking and Sustainable Economic Growth: A Pathway to Inclusive Finance

Dr. J. Santhi

Associate Professor
Department of Commerce
Sri Chandrasekharendra Saraswathi Viswa Mahavidyalaya
Enathur, Kancheepuram - 631561

Abstract:
Digital banking is emerging as a transformative force in the global financial ecosystem. It's contribution in reshaping how individuals, businesses, and governments interact with financial services is highly significant. This conceptual paper explores the relationship between digital banking and sustainable economic growth, emphasizing its role in promoting financial inclusion and environmental sustainability. Drawing upon the Financial Intermediation Theory and the Sustainable Development Theory, the study develops a comprehensive conceptual framework that links digital innovation, inclusion, and sustainability. The paper is an effort to synthesize existing literature to demonstrate how digital banking enhances accessibility, efficiency, and transparency while supporting green finance initiatives. It also highlights the challenges of digital inequality, cybersecurity, and regulatory gaps that may hinder inclusive growth. The study concludes that digital banking, when guided by ethical governance and sustainability principles, can serve as a catalyst for inclusive and long-term economic development.

Keywords: Digital Banking, Sustainable Economic Growth, Financial Inclusion, Green Finance, Sustainability.

Introduction

The digital revolution has fundamentally transformed the global financial landscape. Digital banking—defined as the delivery of banking services through digital platforms—has become a cornerstone of modern economies. It enables individuals and businesses to perform transactions, access credit, and manage investments efficiently and securely. Beyond convenience, digital banking has the potential to drive sustainable economic growth by promoting financial inclusion, reducing inequality, and supporting environmentally responsible practices.

Digital banking can be defined as "the use of digital platforms and technologies to deliver banking products and services, enabling customers to perform financial transactions electronically without visiting physical branches" (Arner et al., 2016). It encompasses mobile banking, internet banking, and digital payment systems.

Financial inclusion refers to "the process of ensuring access to appropriate financial products and services needed by all sections of society, particularly vulnerable groups, at an affordable cost and in a fair and transparent manner" (World Bank, 2022).

Sustainable economic growth is defined as "economic development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Commission, 1987).

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In developing economies, digital banking bridges the gap between the unbanked and formal financial systems, empowering marginalized communities to participate in economic activities (Demirgüç-Kunt et al., 2022). Simultaneously, digital banking contributes to sustainability by reducing paper use, minimizing physical infrastructure, and facilitating green finance initiatives (Chen & Volz, 2022). This study aims to conceptualize how digital banking can serve as a pathway to inclusive and sustainable economic growth.

Statement of the Problem

Despite the rapid expansion of digital banking, its contribution to sustainable economic growth remains insufficiently understood. While digital platforms have improved access to financial services, disparities persist in digital literacy, infrastructure, and affordability (Ozili, 2018). Many developing nations face challenges in ensuring that digital banking benefits all segments of society, particularly rural and low-income populations. Moreover, the environmental implications of digital banking—such as energy consumption from data centers and electronic waste—are often overlooked.

The absence of a unified conceptual framework linking digital banking, inclusion, and sustainability creates a gap in both academic research and policy formulation. This study addresses this gap by developing a theoretical model that integrates these dimensions to explain how digital banking can foster sustainable economic growth.

Need for the Study

The global economy is increasingly digital, and financial systems are at the forefront of this transformation. However, the potential of digital banking to contribute to sustainable development is not fully realized. There is a need to understand how digital banking can simultaneously promote economic efficiency, social inclusion, and environmental sustainability. This study is essential to provide a conceptual foundation for policymakers, financial institutions, and researchers to design strategies that align digital innovation with sustainable growth objectives.

Significance of the Study

This study contributes to the academic and policy discourse on sustainable finance by positioning digital banking as a key enabler of inclusive economic growth. It provides a theoretical understanding of how digital banking supports the Sustainable Development Goals (SDGs), particularly SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation, and Infrastructure), and SDG 13 (Climate Action). The findings can guide policymakers in developing inclusive digital finance policies, assist financial institutions in adopting sustainable practices, and offer researchers a conceptual basis for future empirical studies.

Review of Literature

Theoretical Foundation

The theoretical foundation establishes the conceptual base for understanding how digital banking contributes to sustainable economic growth and inclusive finance.

Financial Intermediation Theory (Schumpeter, 1934) explains how financial institutions facilitate economic growth by channelling funds from savers to investors. Digital banking enhances this process by improving efficiency and expanding access to capital.

Sustainable Development Theory (Brundtland Commission, 1987) emphasizes meeting present needs without compromising future generations. Digital banking aligns with this theory by promoting inclusive and environmentally responsible financial practices.

Triple Bottom Line Framework (Elkington, 1997) integrates economic, social, and environmental dimensions of sustainability—profit, people, and planet.
Institutional Theory (Scott, 2001) highlights the role of governance and regulation in innovation adoption.
Diffusion of Innovations Theory (Rogers, 2003) explains how digital banking technologies spread across societies.

Empirical Perspectives

Empirical studies provide evidence of how digital banking influences financial inclusion, economic growth, and sustainability.
Arner, Barberis, & Buckley (2016) found that FinTech and digital banking improve efficiency and transparency.
Demirgüç-Kunt et al. (2022) demonstrated that digital financial services enhance inclusion, especially in developing economies.
Ozili (2018) noted that digital finance promotes inclusion but requires strong regulation.
Zhang & Kim (2020) linked blockchain and digital banking to transparency and sustainability.
Chen & Volz (2022) identified opportunities for digital banking to support green investments.
Kshetri (2021) connected digital finance to SDGs, emphasizing poverty reduction and innovation.

Contextual and Contemporary Studies

Recent studies and policy reports highlight challenges and opportunities in digital banking for sustainable growth.
Gabor & Brooks (2017) warned that without governance, digital banking could reinforce inequality.
Bocken et al. (2014) proposed sustainable business models integrating profit with social and environmental goals.
Newell & Paterson (2010) introduced green capitalism, aligning markets with sustainability.
World Bank (2022) and IMF (2023) emphasized digital inclusion as a driver of post-pandemic recovery.
The synthesis of these layers reveals that digital banking can drive sustainable economic growth when supported by inclusive policies, innovation, and environmental awareness.

Research Gap

While existing studies have explored digital banking's role in financial inclusion and technological innovation, few have examined its connection to sustainable economic growth. The environmental dimension of digital banking remains under-researched. This study fills this gap by integrating inclusion, innovation, and sustainability into a unified conceptual framework.

Research Questions

1. How does digital banking contribute to sustainable economic growth?
2. What role does digital banking play in promoting financial inclusion?
3. How can digital banking support environmental sustainability?
4. What theoretical framework best explains the relationship between digital banking and sustainable growth?

Research Objectives

1. To analyze the role of digital banking in promoting sustainable economic growth.
2. To identify how digital banking enhances financial inclusion.

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3. To explore the environmental implications of digital banking.
4. To develop a conceptual framework linking digital banking, inclusion, and sustainability.

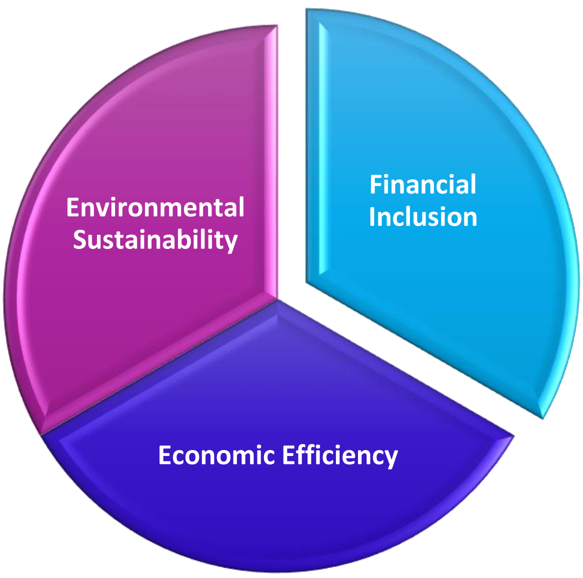
Methodology

This study adopts a qualitative, conceptual research design. This study is focusing on theory building rather than hypothesis testing. The study integrates insights from financial, technological, and sustainability literature to construct a comprehensive conceptual framework. It brings together insights from existing literature, theories, and frameworks to build a conceptual understanding of how digital banking contributes to sustainable economic growth. The methodology involves content analysis of peer-reviewed journals, reports, and theoretical models.

Conceptual Framework

Financial inclusion involves the availability and equality of opportunities to access financial services (Demirgüç-Kunt et al., 2022).
Economic efficiency refers to the optimal use of resources to achieve maximum output with minimal waste (OECD, 2021).
Environmental sustainability is the responsible interaction with the environment to avoid depletion of natural resources and maintain ecological balance (Elkington, 1997).
The conceptual framework positions digital banking as the central driver of sustainable economic growth through three interconnected dimensions:

Chart showing Three Dimensions of the Digital Banking



Financial Inclusion

Financial inclusion means making sure that everyone, especially people in underserved or remote areas, can access and use affordable financial services. It's about giving individuals and small businesses the opportunity to save money, borrow, make payments, and protect themselves financially through insurance or credit. When more people are included in the financial system, they can participate more fully in the

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economy, improve their livelihoods, and build financial stability. Digital banking plays a big part in this by using technology to reach people who were previously left out of traditional banking systems.

Economic Efficiency

Economic efficiency is about using resources in the best possible way to achieve maximum output with minimal waste. It focuses on improving productivity, lowering transaction costs, and ensuring transparency in financial and economic activities. In the context of digital banking, economic efficiency means faster transactions, reduced operational expenses, and better allocation of financial resources. By streamlining processes and minimizing human error, digital banking helps create a more responsive, transparent, and cost-effective financial system that supports sustainable economic growth.

Environmental Sustainability

Environmental sustainability is about meeting present needs without harming the planet's ability to support future generations. It involves using resources responsibly, protecting ecosystems, and reducing pollution and waste. In the context of digital banking, environmental sustainability means supporting green finance initiatives, cutting down on paper use, and minimizing the ecological footprint of financial operations. By shifting to digital platforms, banks can lower energy consumption, reduce physical infrastructure, and promote environmentally conscious financial practices that contribute to a greener economy.

These dimensions interact within a governance and policy environment that determines the overall impact of digital banking on sustainable growth.

Theoretical Framework

A theoretical framework is "a structure that guides research by relying on a formal theory constructed by using a series of concepts and propositions that are interrelated" (Creswell, 2014). This study draws on two main theories:

Financial Intermediation Theory (Schumpeter, 1934)

Explains how financial institutions facilitate economic growth by channelling funds from savers to investors. Digital banking enhances this process by improving efficiency and expanding access to capital.

Sustainable Development Theory (Brundtland Commission, 1987)

Emphasizes meeting present needs without compromising future generations. Digital banking supports this by promoting inclusive growth and environmentally responsible financial practices.

Together, these theories explain how digital banking can drive sustainable economic growth through innovation, inclusion, and environmental stewardship.

Discussion

As a conceptual study, the results are interpretive and theoretical rather than empirical. The synthesis of literature and theoretical reasoning leads to several key findings:

Digital banking enhances financial intermediation efficiency, thereby accelerating economic growth. It reduces transaction costs, improves capital allocation, and fosters innovation-driven entrepreneurship.

Financial inclusion is a mediating factor between digital banking and sustainable growth. By enabling access to credit, savings, and insurance, digital banking empowers marginalized populations and supports equitable economic participation.

Environmental sustainability emerges as an indirect outcome of digital banking adoption. The transition from paper-based to digital transactions reduces resource consumption, while digital platforms facilitate green finance and sustainable investments.

Institutional and regulatory frameworks moderate the relationship between digital banking and sustainable growth. Countries with robust digital infrastructure, data protection laws, and financial literacy programs experience stronger positive outcomes.

The proposed conceptual framework—linking digital banking, inclusion, and sustainability—provides a theoretical model for understanding how digital innovation can drive long-term economic resilience.

Results

As a conceptual study, the results are theoretical rather than empirical. The analysis suggests that digital banking can significantly contribute to sustainable economic growth when supported by inclusive policies, technological innovation, and environmental awareness. The proposed conceptual framework highlights the interdependence of inclusion, efficiency, and sustainability in achieving long-term economic resilience.

Implications of the Study

The study provides valuable insights for policymakers, financial institutions, and researchers. Policymakers can use the conceptual framework to design inclusive digital finance policies. Financial institutions can adopt sustainable digital practices, while researchers can build on this conceptual foundation to conduct empirical studies.

Scope for Future Study

Future research can empirically test the proposed conceptual framework using quantitative or mixed methods. Comparative studies across countries can explore how digital banking influences sustainability under different regulatory and cultural contexts.

Limitations of the Study

This study is conceptual and relies solely on secondary data. It does not include primary data collection or statistical analysis. The findings are theoretical and may vary across regions and economic contexts.

Conclusion

Digital banking serves as a transformative force for sustainable economic growth. By integrating technology with inclusive and green finance, it promotes equitable access, efficiency, and environmental responsibility. When guided by sound policies and ethical governance, digital banking can become a key pathway toward inclusive and sustainable prosperity.

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