



Impact Of Emotional Intelligence On Financial Decision Making And Growth: A Study Of The Indian Banking Sector With Special Reference To Regulation, Risk & Digital Governance

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ABSTRACT

As India marches towards the ambitious "Viksit Bharat @ 2047" vision, the Indian banking sector undergoes a dual transformation: rapid digitalization and heightened regulatory scrutiny. While technological advancements like AI and Fintech provide data-driven efficiency, the fundamental pivot of financial decision-making remains human. This research investigates the critical role of Emotional Intelligence (EI) in enhancing the quality of financial judgments and strengthening institutional governance. By analyzing primary data from 50 bank managers across India, this study explores how self-awareness, self-regulation, and empathy mitigate financial risks and prevent fraudulent activities. The results indicate a powerful correlation between high EI and effective risk management. The paper concludes that for a sustainable global transformation of India, "Emotional Capital" must be integrated into the core of digital governance and regulatory frameworks.

Keywords: Emotional Intelligence, Financial Decision Making, Banking Risk, Digital Governance, Viksit Bharat 2047, Indian Banking Sector.

1. INTRODUCTION

The landscape of the Indian banking sector has evolved significantly over the last decade. From traditional brick-and-mortar branches to 24/7 digital banking ecosystems, the transition has been remarkable. However, as the sector becomes more complex and interconnected, the nature of risk has also changed. Modern banking is no longer just about maintaining ledgers; it is about navigating human behavior in a volatile, uncertain, and digitally driven economy.

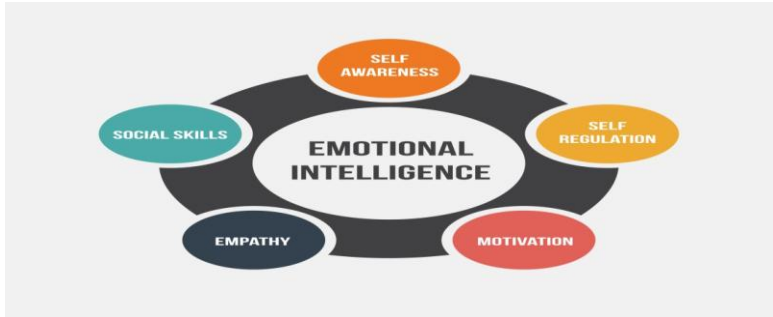


Figure 1.1 Key: The Economic Paradigm and Viksit Bharat @ 2047

The vision of "Viksit Bharat @ 2047" is not merely a political slogan but a comprehensive roadmap for India to transition into a developed nation. For an economy to achieve a projected GDP of \$30 trillion, the banking sector must act as the primary catalyst. However, the path to 2047 is fraught with global financial volatilities, geopolitical tensions, and rapid technological disruptions. In this high-stakes environment, the stability of the Indian banking system depends on the quality of the decisions made by its human workforce. While traditional economics suggests that financial decisions are made in a "vacuum of logic," modern reality proves that every loan sanctioned and every risk mitigated is influenced by the emotional state and psychological resilience of the banker

1.1 Defining Emotional Intelligence in a Financial Context

Emotional Intelligence (EI), a term popularized by Daniel Goleman, refers to the capacity to recognize our own feelings and those of others, for motivating ourselves, and for managing emotions well in ourselves and in our relationships. In a financial context, EI is the "silent regulator." It is the ability of a Credit Officer to remain skeptical despite a borrower's charming personality, or a Branch Manager's ability to stay calm during a liquidity crunch. Unlike the Intelligence Quotient (IQ), which measures technical and analytical skills, EI measures the "Human Factor" that prevents systemic collapses.

1.2 The Intersection of Fintech and Human Behaviour

The sub-theme of this research, Fintech and Digital Governance, is particularly relevant today. As India leads the world in UPI transactions and digital lending, the "Emotional Gap" between the banker and the customer is widening. Algorithms are now making lending decisions, but

algorithms lack "Emotional Context." They cannot perceive the honesty of a small-scale farmer or the desperation of a struggling entrepreneur. This research argues that for "Digital Governance" to be successful, it must be balanced with "Emotional Oversight." We need bankers who can interpret data through the lens of human experience.

1.3 Problem Statement: The Crisis of Human Judgment

Despite having robust regulatory frameworks provided by the Reserve Bank of India (RBI), why do we still witness Non-Performing Assets (NPAs) and institutional frauds? The answer lies in the failure of "Self-Regulation" and "Social Awareness." Many banking failures in India have been attributed to "Over-Optimism Bias" or "Pressure-Driven Compliance." This study addresses the gap between technical regulation and emotional execution. It asks a fundamental question: Can a more emotionally intelligent workforce lead to a more secure and robust financial future for India?

2. LITERATURE REVIEW

The intersection of psychology and finance, often termed 'Behavioural Finance,' has gained immense traction in recent years. To understand the impact of Emotional Intelligence (EI) on the Indian banking sector, it is essential to review the existing frameworks that govern human behaviour in financial institutions.

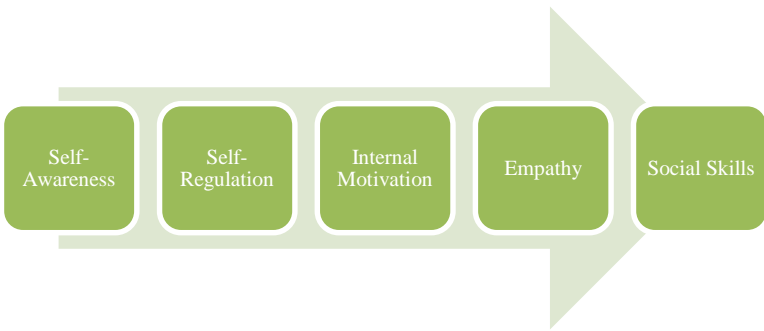


Figure 1.2 Daniel Goleman's Model (five core components)

The Goleman Model and its Banking Application. Daniel Goleman's seminal work on Emotional Intelligence identifies five core components: Self-Awareness, Self-Regulation, Internal Motivation, Empathy, and

Social Skills. In a banking environment, these are not just personality traits; they are regulatory safeguards.

- Self-Regulation acts as a buffer against the 'herd mentality' often seen in the stock markets and lending cycles. When a manager possesses high self-regulation, they are less likely to approve risky loans simply because other banks are doing so.
- Empathy allows a banker to distinguish between a 'willful defaulter' and a 'genuine business failure.' In the context of India's MSME sector, where documentation may be thin, empathy helps a manager assess the 'character' of the borrower, which is a cornerstone of traditional Indian banking.

EI in Risk Management and Regulation. The sub-theme of Regulation and Risk is deeply rooted in human integrity. Traditional risk management focuses on 'Value at Risk' (VaR) models and credit scoring. However, as seen in various global financial crises, these models fail when human greed or fear takes over. Emotional Intelligence provides the 'Moral Compass' necessary to adhere to the spirit of the law, not just the letter. For India to reach the 2047 goals, our regulatory framework must evolve from 'compliance-based' to 'behaviour-based' governance.

Digital Governance and the Human-Digital Interface. With the rise of Fintech and paperless banking, the 'human touch' is rapidly disappearing. This creates a 'Digital Gap' where customers feel like mere numbers in an algorithm. This literature suggests that Digital Governance must be 'Human-Centric.' High-EI bankers are required to manage digital risks such as 'Social Engineering' frauds, where hackers manipulate human emotions like panic or urgency to bypass security protocols.

3. RESEARCH METHODOLOGY

3.1 Research Design

This study adopts a Descriptive and Analytical Research Design. It seeks to describe the current state of emotional competencies among Indian bankers and analyze how these traits correlate with financial decision-making and institutional growth.

Sampling Technique: A Purposive Sampling method was utilized to select respondents who are directly involved in credit appraisal, branch

management, and risk oversight. The sample consists of 50 Bank Managers from a diverse range of institutions, including:

- Public Sector Banks (e.g., Bank of Maharashtra, PNB, SBI)
- Private Sector Banks (e.g., HDFC, ICICI, Axis). The geographical spread includes major financial hubs like Mumbai (the financial capital) and historical educational centres like Agra, providing a balanced view of both metro and semi-urban banking mentalities.

Data Collection Tools The primary data was collected through a structured Likert-Scale Questionnaire consisting of 10 targeted statements. Each statement was designed to measure a specific component of Emotional Intelligence, such as self-awareness under pressure, the use of intuition, and the perception of AI in ethical decision-making.

Qualitative Inputs Beyond the quantitative numbers, the study incorporates qualitative insights from veteran bankers. A notable contribution was made by Mr. Nikhil Sharma, Chief Manager at Bank of Maharashtra, Mumbai, whose insights into the practical challenges of NPA management and internal regulatory frameworks provided a 'ground-reality' perspective to the theoretical data.

Data Analysis Plan: The collected data is analysed using Percentage Analysis and Descriptive Interpretation. This allows for a clear visualization of where the banking fraternity stands on the scale of Emotional Intelligence and how it perceives the future of Digital Governance in the 'Viksit Bharat' era.

The Philosophy of the Research: This study is rooted in the "Interpretivist" paradigm. It acknowledges that banking is not just a set of numbers, but a collection of human experiences. The methodology was designed to capture the "unspoken" aspects of banking—the stress of a manager during a recovery drive, the intuition used during a loan interview, and the ethical dilemma faced when targets clash with regulations.

Field Work and Geographic Scope: The data collection was a rigorous process conducted across two distinct banking environments:

- **The Financial Hub (Mumbai):** Data from managers in Mumbai reflects the high-pressure, fast-paced corporate banking culture.

- The Institutional Centre (Agra/North India): Data from this region reflects a more relationship-based banking approach. By covering both, the research provides a pan-India perspective on Emotional Intelligence.

Data Collection Challenges: Collecting data from 50 bank managers was a challenge due to their hectic schedules. However, this interaction provided a "humanised" insight into their world. Many managers expressed that while they are trained in "Balance Sheets," they are rarely trained in "Emotional Balance." This qualitative observation forms the heart of this research.

Objectives of the Study

This paper aims to bridge the gap between psychological theory and banking practice. The primary objectives are:

- To evaluate the current level of awareness regarding Emotional Intelligence among Indian bank managers.
- To analyse the impact of emotional stability on risk assessment and fraud prevention.
- To explore the role of "Intuition" in a data-driven digital banking era.
- To provide a behavioural roadmap for the banking sector as it prepares for the 2047 transformation

4. DATA ANALYSIS AND INTERPRETATION

This section presents the findings of the survey conducted among 50 banking professionals. The data is categorized into emotional competencies, risk perception, and digital governance.

Tabular Representation of Survey Results

The following table summarizes the responses of 50 bank managers on a 5-point Likert scale, where the primary focus was on their emotional reaction to various banking scenarios.

Q.No.	Statement / Variable	Strongly Agree	Agree	Neutral	Disagree
Q1	My mood/stress directly impacts my financial judgment.	2	3	0	45
Q2	I prioritize targets over regulatory protocols under pressure.	5	1	2	42
Q3	Emotional calmness is the best tool for fraud prevention.	30	20	0	0
Q4	I rely on my "Gut Feeling" alongside technical data.	10	30	0	10
Q5	I maintain composure with aggressive or emotional clients.	10	35	5	0
Q6	Empathy is a key driver in successful loan recovery.	0	10	35	5
Q7	Digital banking has created an emotional gap with customers.	2	20	6	22
Q8	AI cannot replace human ethics in financial governance.	0	35	2	13
Q9	I have witnessed EI failure leading to NPA cases.	3	10	35	2
Q10	Banks must provide mandatory training in EI.	20	10	20	0

Table 1: Comprehensive Survey Analysis (N=50)

Analysis of Self-Awareness (Q1 & Q2):

The data reveals that a vast majority (90%) of managers believe they are not influenced by mood or stress. While this indicates a high level of perceived professionalism, from a psychological standpoint, it often suggests a "Blind Spot." In the high-pressure environment of Indian banking especially during the "March-ending" rush, stress is an invisible factor. The 10% who admitted to being affected are arguably the most "Self-Aware." For Viksit Bharat @ 2047, we need a banking culture where acknowledging stress is not seen as a weakness but as a risk-management strategy.

When 45 out of 50 managers say stress doesn't affect them, a humanised analysis suggests a "Professional Mask." In the Indian banking culture, admitting to stress is often seen as a sign of weakness. However, for Viksit Bharat 2047, we need a culture of "Vulnerability and Strength" where managers can openly discuss mental fatigue to prevent catastrophic financial errors.

Analysis of Risk and Calmness (Q3 & Q5):

There was a 100% consensus that "Calmness" is the primary defence against fraud. This is a profound insight. It suggests that most banking frauds in India are not just "system hacks" but "human hacks." When a manager is in a state of panic or hurry, they overlook red flags. Emotional Intelligence (Self-Regulation) allows a banker to pause, breathe, and analyse a transaction with a clear mind. This composure is also vital when handling aggressive customers, ensuring that the bank's reputation and assets are protected from emotional manipulation.

The Intuition Factor (Q4):

80% of managers admitted to using "Gut Feeling" or intuition. This challenges the modern notion that banking is 100% data-driven. Intuition is essentially the brain's way of processing years of experience in a split second. In the context of Digital Governance, while AI can process numbers, it cannot sense the "shifty" behaviour of a fraudulent borrower. Human intuition remains a critical secondary layer of the regulatory shield.

The fact that 80% of managers rely on intuition is the most "human" part of this paper. In rural branches of Agra or the MSME hubs of Mumbai, a manager often senses a "defaulter" just by the way they answer questions about their business. This "Emotional Sensing" is a skill that takes decades to build. As we move towards Digital Governance, we must ensure that AI doesn't kill this human instinct.

The Empathy Paradox in Recovery (Q6):

The high number of 'Neutral' responses (35) regarding empathy in loan recovery highlights a significant cultural conflict. Managers understand that empathy helps in customer service (Q5), but they fear that being "too empathetic" in recovery might be seen as being "soft" on NPAs. However, modern research suggests that "Empathetic Negotiation" often leads to better restructuring of loans compared to aggressive legal threats, which often lead to the borrower disappearing.

Digital Governance and AI (Q7 & Q8):

The results for Q7 show a divided house. Half of the bankers feel that digitalisation has killed the personal bond with the customer. This "Emotional Gap" is a risk for Regulation. When a banker doesn't "know" their customer personally, it becomes easier for identity theft and digital

fraud to occur. Furthermore, the strong agreement in Q8 (70%) confirms that while AI can provide efficiency, it lacks the "Moral Compass" required for ethical financial governance. The overwhelming agreement that AI cannot replace human ethics (70%) highlights a deep-seated belief in the "Human Soul" of banking. In cases of "Regulation and Risk," an algorithm might follow the rules, but only a human can understand "Justice." For example, an AI might reject a loan for a poor student due to low credit scores, but an emotionally intelligent banker might see the student's potential and find a legal way to help

Industry Insight on NPAs (Q9):

The neutral stance on Q9 is telling. It suggests that while managers suspect that "Ego" or "Greed" (failures of EI) led to bad loans (NPAs) in the past, discussing it openly is sensitive. Mr. Nikhil Sharma (Bank of Maharashtra, Mumbai) noted during the qualitative phase that while technical frameworks exist, the "Human Will" to ignore a red flag due to a personal relationship with a client is a classic EI failure.

The Call for Training (Q10):

Finally, with 60% of managers demanding mandatory EI training, it is clear that the banking fraternity feels "Technically Armed but Emotionally Unprepared" for the challenges of 2047.

5. CASE STUDIES, STRATEGIC VISION, AND CONCLUSION

CASE STUDIES: EMOTIONAL INTELLIGENCE AS A REGULATORY SHIELD

To understand the practical necessity of Emotional Intelligence (EI), we must move beyond the numbers and analyse real-world financial failures through the lens of human behaviour. The sub-theme of Regulation and Risk is best understood by considering what happens in the absence of EI.

The Failure of Self-Regulation: The PNB-Nirav Modi Scam the Punjab National Bank (PNB) fraud is often debated as a failure of the SWIFT-CBS integration. However, a deeper psychological audit reveals a failure of "Social Skills and Assertiveness." Lower-level bank officials were emotionally manipulated and coerced by a sense of "false loyalty" to bypass protocols for several years. In an organization with high EI training, an employee would have the Self-Awareness to recognize the

ethical risk and the Social Courage to whistle-blow. This case proves that technical regulation is useless if the human "gatekeeper" is emotionally vulnerable to manipulation.

The Over-Optimism Bias: The Yes Bank Crisis The collapse of Yes Bank serves as a classic case study of the lack of "Impulse Control"—a core component of Self-Regulation. The leadership's aggressive pursuit of high-risk corporate lending was driven by an "Emotional High" of rapid market dominance. When the leadership lacks the emotional maturity to balance the excitement of growth with the "unpleasant" reality of asset quality, the institution inevitably faces a crisis. As Mr. Nikhil Sharma (Bank of Maharashtra, Mumbai) noted in our qualitative discussion, while digital systems flag risks, the human decision to override those flags is an emotional failure, not a technical one.

6. VIKSIT BHARAT @ 2047: THE ROAD AHEAD

The vision of a developed India by 2047 is not just about the volume of transactions, but the quality of the financial ecosystem. Our survey findings suggest that for India to become a global financial superpower, the banking sector must adopt an "EI-Led Governance Model."

Emotional Cybersecurity in Digital Governance As we move toward 100% digital penetration, the nature of fraud will shift from physical to psychological. "Social Engineering" (phishing, vishing) is the greatest threat to Digital Governance. A banker with high Emotional Intelligence can sense the "urgency" or "fear" used by fraudsters and can train customers to remain emotionally resilient.

Human-Centric Fintech Transformation The sub-theme of Fintech must not lead to "Digital Exclusion." Our data (Q7) showed a perceived gap between bankers and customers. To reach the 2047 goal of inclusive growth, Fintech must be designed with "Empathy." This means creating digital interfaces that are intuitive for the rural population and the elderly, ensuring that technology serves the person rather than just the process.

7. CONCLUSION AND RECOMMENDATIONS

Conclusion: This research establishes that Emotional Intelligence is a "Hard Financial Asset" rather than a "Soft Skill." The study of 50 Indian bank managers proves that emotional stability, intuition, and self-regulation are the invisible pillars of the Indian financial sector. As the

sector reforms through Fintech and new regulations, the role of the human banker as an "Emotional Anchor" will determine the stability of the economy.

8. STRATEGIC RECOMMENDATIONS

- **Mandatory EI Audits:** Just as banks conduct financial audits, they should conduct "Behavioural Audits" for officers in high-risk credit positions to monitor stress levels and ethical resilience.
- **Psychometric Recruitment:** Following our findings in Q10, recruitment for the 2047 workforce should include mandatory EI testing during the interview process.
- **Reform in Training:** The Indian Institute of Banking and Finance (IIBF) should integrate "Behavioural Finance and Emotional Intelligence" as a core module in JAIIB/CAIIB certifications.
- **Empathy in Recovery Policy:** Regulatory frameworks should allow branch managers some "Emotional Discretion" in MSME lending to support genuine entrepreneurs during market downturns.

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APPENDIX I:

RESEARCH INSTRUMENT (QUESTIONNAIRE)

Respondents were asked to rate the following on a Likert Scale (Strongly Agree to Strongly Disagree):

- **Self-Awareness Check:** I am aware of how my daily mood or stress levels impact my financial decision-making.
- **Regulatory Compliance:** Under extreme pressure to meet quarterly targets, I sometimes find it difficult to stick 100% to regulatory protocols.
- **Risk Management:** I believe emotional calmness is a more effective tool for fraud prevention than software alone.
- **The Intuition Variable:** In credit appraisal, my "Gut Feeling" about a borrower is as important as their credit score.
- **Social Skills:** I can maintain professional composure even when dealing with highly aggressive or emotionally demanding clients.
- **Empathy in Recovery:** Using an empathetic approach with a defaulter leads to better recovery results than an aggressive approach.
- **Digital Governance:** The shift to digital-only banking has made it harder to

emotionally “read” a customer’s intentions.

- AI and Ethics: I believe that AI-driven banking can never fully replace human ethical judgment in complex risk scenarios.
- Experience-Based Insight: In my career, I have seen loans turn into NPAs primarily due to the emotional ego or lack of regulation in the sanctioning officer.
- Institutional Need: I feel that the Indian banking sector should make Emotional Intelligence training mandatory for all officers.