Effects of various factors on financial inclusion

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Abstract

Financial institutions are the main pillars for economic growth, progress and development of any country. Financial access can boost the financial condition and standard of living of poor. RBI has taken many steps to develop banking sector of the country by opening new Bank Branches, installation of ATMs and introduction online banking and mobile banking but still there are many factors which are responsible for financial exclusion some of the factors are discussed in the paper that effect financial inclusion. Research is done to find the main factors which are constraint in the process of financial inclusion.

Key words: financial inclusion, financial institutions, financial literacy, vulnerable groups, social-cultural issues, economic issues, affordable cost.

1. INTRODUCTION

Financial inclusion is about availing financial products to everyone and more especially to the weaker sections of and vulnerable groups in the society (Allen, Otchere & Senbet, 2011). Financial institutions are the main factors that help in economic and social growth and progress of any country. So there is rapid thrust for financial inclusion in developing countries. For the progress of any society financial inclusion is must. Access to finance by the vulnerable and poverty ridden people is very important of poverty reduction and social wellbeing. The term financial inclusion was coined in 2005 in India, when RBI in its annual policy statement of 2005-2006 put this matter as a great concern. Financial inclusion means delivery of financial services at affordable cost to vast sections and low- income group people. As per Rangarajan committee report (2008) Financial inclusion is defined "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost". The process of financial inclusion consists of ensuring bank accounts to each household and offering their inclusion in the banking system (Reddy, 2007).

There are various socio-cultural and economic issues that are constraint for financial inclusion. We can say that from demand side, it includes lack of awareness and illiteracy (Throat, 2007) and from supply side, poor bank penetration, distance of banks, lack of avenues for investment, willingness of banks, high cost but according to RBI the main reason from supply side is the cost involved in financial inclusion is not unbearable and that it is not true that banks are not willing to do financial inclusion (Chakrabarty, 2010).

Financial Inclusion in India

The government of India has set up National Rural Financial Inclusion Plan (NRFIP) to achieve complete financial inclusion by 2015. Two funds of about US $ 125 million have been allocated FIF and FITF. Current banking infrastructure in rural India relies on the manual delivery of services. This presents a massive hurdle in reaching out to the sheer number and geographical spread of the financially underserved population. In matching the FIF with the Financial Inclusion Technology Fund (FIFT), the government has given equal importance to the development of technology. The government has also setup a committee on Financial Inclusion under the chairmanship of the ex-governor of RBI, Dr. C Rangarajan, to study the pattern of exclusion, identify barriers, review international experience and provide recommendations for achieving financial inclusion. There are various factors which effect financial inclusion; government has taken many steps to bring people into the mainstream.

2. Need for the study

In India most of the population lives below poverty line, because of many challenges: geographically diverse population , corruption, lack of proper infrastructure, lack of health care facilities, rapid urbanization, lack of financial services. Most of the people of India does not hold even a single bank account and if they have bank account then because of low income they are not able to operate it. For sustainable development of the country it is important to avail financial services to the unreached people of the country with the help of financial institutions. Financial inclusion is a process of ensuring timely access to financial services and adequate credit where needed by vulnerable groups at an affordable cost. Financial inclusion process consists of ensuring bank account to each households and offering bringing them to the main stream of banking system. The study was done to find out the factors which effect financial inclusion. There are many reasons for not opening bank accounts that are income, distance of bank branches, minimum balance, financial literacy; the study has been done from the demand side and to find out the major factors which are affecting financial inclusion.

3. REVIEW OF LITERATURE

Ganeshkumar, V. and Paramasivan, C. (2013) overviewed the financial inclusion in India , they analysed that households with low income group have limited bank accounts, further they analysed that the coverage of banking services region wise and examined that south india has maximum financial literacy

Thapar, A.(2013) has studied the effectiveness of financial inclusion program in India, she has selected bank branches within ludhiana district of Punjab, she tried to find out the steps taken by banks in the area of financial inclusion and concluded that more than 50% of the bank branches has started implementing the program of financial inclusion and the majority of banks are meeting the RBI guidelines for opening bank branches in areas with population above 2000, but still more effort is needed. She found that effective implementation of financial inclusion lies between years 2010 to 2012.

Kelkar, V. (2010) analyzed his research paper financial inclusion for inclusive growth he concluded that the financial inclusion can reduce farmer’s indebtedness, which is the major cause of suicides. The other major benefit will be that it will lead to more rapid modernization in India agriculture.

Banerjee and francis (2014) in their article financial inclusion and social development concluded that society will progress only if there is financial interdependence for all stake holders, they focuses on the need of financial inclusion for social development and concluded that the factors liked unemployment and illiteracy are major factors effecting financial inclusion.

Katia,V. (2013) studied financial inclusion for direct benefit transfer growth and hurdles, he studied that govt. has done lots of efforts but so many problems arose in implementation of financial inclusion and direct benefit transfer, if the hurdles are not taken care properly than the benefit of direct cash subsidies could not reach to poor people of the country as a result this will be proved as wastage of funds and energy. He concluded that direct benefit transfer benefits could not reach to poor people in the absence of financial inclusion.

Hussain, M.etal. (2015) stated that the deprived sections of society have very limited access to financial services, and this depends on social and economic inequality. Social justice and equity is core for the efforts in financial inclusion. They were in opinion of that India both state and civil society been helping in propagation financial inclusion from very long time.

4. OBJECTIVE OF STUDY

The main objective of the study is to measure the effect of the factors which effect financial inclusion and the find out the reasons why people are financially excluded from the main stream of banking system.

5. RESEARCH METHODOLGY

Research Design: Descriptive Research

A descriptive survey was adopted in this study, which is an attempt to get data from respondents. descriptive research design focuses on answering questions about what the research study is about how it is to be conducted and where(Cooper and Schindler 2008)

Sampling Design: Convenient Sampling

Universe of study: The study utilizes the people in the Bathinda region, the questions were asked from the people for this purpose

Sample size: Sample size is number of elements to be included in the study. Keeping in mind all the constraints sample of 100 people was taken.

Data: Data has been collected with the help of administrative structured questionnaires with close ended questions.

6. LIMITATIONS OF STUDY

There was shortage of time to conduct the study, due to shortage of time; small sample size has been taken which may not be the true representative of the whole universe.

- Due to shortage of time , it was not possible to observe every aspect of the problem
- Due to conservative nature of the respondents, it may be possible that respondents may not have given their responses in fully true manner.
- Many of the respondents were reluctant to answer because of their busy and hectic schedule
- The study is limited to only one district and so many other potential samples have been neglected.

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7. DATA ANALYSIS AND INTERPRETATION

Factors affecting financial inclusion

Table: 1

Factors	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Distance	10	30	30	20	10
Cost	15	25	20	35	15
Attitude of employees	8	12	15	20	45
Charges	40	20	10	17	13
Interest	40	20	13	12	15
Information provided	35	27	13	12	13
Income	45	35	7	10	3
Financial literacy	48	32	6	10	4

Table: 1 reveals that out of 100 people 10 people strongly agreed that main factor which effect financial inclusion is distance 30 agreed to it, 30 were neutral, 20 disagreed and 10 were strongly disagreed. Out 0f 100 people 15 think that cost is the major factor affecting financial inclusion, 25 agreed to this statement, 20 were neutral, 35 disagreed and 15 strongly disagreed. When asked about attitude of employees effect financial inclusion then 20 were strongly agreed, 25 agreed, 25 were neutral 10 were disagreed and 20 were strongly disagreed. When asked about charges is the main factor then 40 were strongly agreed, 20 agreed 10 were neutral, 17 disagreed and 13 were strongly disagreed. When asked about interest is the main reason than 50 people strongly agreed, 10 agreed, 13 were neutral, 12 disagreed and 15 strongly disagreed. When asked about information provided is the main factor affecting financial inclusion, 35 very strongly agreed, 27 agreed, 13 were neutral, 12 disagree and 13 strongly disagree. When asked about income is the main factor affecting financial inclusion then 45 strongly agreed, 35 agreed, 7 were neutral, 10 disagreed and 4 were strongly disagreed. In case of financial literacy 48 strongly agreed, 32 agreed, 6 were neutral, 10 disagree and 4 strongly disagree.

8. FINDINGS

- As per the study, 48 percent people strongly agree that financial literacy is the main factor affecting financial inclusion; they think that main reason for not opening bank accounts is financial literacy.
- Second main factor effecting financial inclusion is income, 45 percent people think that main factor Affecting financial inclusion is income.
- Thirdly charges and interest are the factor affecting financial inclusion, 40 percent people think that charges and interest are the main factor affecting financial inclusion.
- Least important factor effecting financial inclusion is attitude of employees.
- Distance is the neutral factor affecting financial inclusion, 30 percent people think that main factor affecting financial inclusion is distance.

9. RECOMMENDATIONS AND CONCLUSION

Government should initiate financial literacy programs so that awareness about benefits of financial inclusion is provided to people who are deprived of financial services. Interest rates on saving bank accounts for low income group should be increased. Bank employees should be cooperative towards customers.

10. SUGGESTIONS FOR FURTHER STUDIES

This study is limited only to one district of Punjab more districts can be under taken. Further study can also be done and more factors affecting financial inclusion can be covered. Relationships between factors can be considered for further research.

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