

# ANALYZING THE FACTORS AFFECTING FINANCIAL INCLUSION

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## Abstract

Government of India has set an objective to include the excluded in the ambit of formal financial sector. For this, it has undertaken many of the policy proposals. The basic rationale behind undertaking these policy proposals was to safeguard the vulnerable groups from the vicious circle of informal credit, unbearable interest burden, financial frauds and exploitation. Initially Reserve Bank of India launched the concept of no frills accounts, and had relaxed KYC norms also. RBI also introduced Micro Finance, General Credit Cards, and Kisan Credit Cards. The concept of Self Help Groups was also introduced with the same vision. Thus, banking sector has played an important role to implement, promote and monitor the key objectives of the financial inclusion drive. And it has also helped, guided and encouraged the untapped group of households in formal financial sector. This paper aims to analyze the major factors affecting the implementation of Financial Inclusion initiatives by the Government & Reserve Bank of India. For this, the researcher has taken the opinions of the banking officials. They are the key people who play an important role in including the target group in the formal financial sector. They provide the first step of inclusion, the basic of banking services which is starting from opening a bank account. Then they give formal credit; provide access to services like ATM etc. This study is undertaken by studying the view points of banking officials. For this, a sample of 110 respondents is taken to analyze the major factors affecting the Financial Inclusion drive.

## Key Words

Bank Accounts, Demand - Side Analysis, Financial Inclusion, Formal Credit

## Introduction

Financial Inclusion drive initiated by Government of India focuses on inclusion of the poor and vulnerable group of people who are still out of the ambit of formal financial structure of the country. In order to achieve this target, Government have taken a lot of policy decisions and initiatives which try to ensure that the maximum reach of the formal financial system is achieved.

Pradhan Mantri Jan Dhan Yojna (PMJDY) played very vital role in achieving success in financial inclusion drive. "Jan Dhan Yojana" means "People Wealth Scheme" This name was chosen by the evaluation team from 6000 entries which were received in an online competition on the MyGov Platform. The tag line / the slogan of Pradhan Mantri Jan Dhan Yojana is "Mera Khata – Bhagya Vidhaata", that means "My Bank Account is Creator of My Good Fortune".

As a part of that, the recent project adopted by the Government is Pradhan Mantri Jan Dhan Yojana which targets to cover each and every untapped group in India with the bank account and access to the formal financial system. 190 million bank accounts were opened as a result of this step in 2015. 32.94 crore people were the Beneficiaries at rural / semi-urban centre bank branches and urban metro centre banks and total Rs. 86163.79 crore were deposited in bank accounts. And 24.71 crore

Rupay Debit Cards were issued to beneficiaries as on 10.10.2018.

Special Benefits are offered under PMJDY Scheme. The scheme provides life cover of Rs. 30,000/- payable on death of the beneficiary. (Subject to fulfilment of the eligibility condition) Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.

Financial Inclusion now is envisioned as a Mission which targets to provide not only the financial services to all the people at an affordable range of products like bank accounts & micro insurance, but also increase the outreach of banks and spread financial literacy among the people.

### **Review of Literature**

Barua A, Kathuria R, Malik N (2016), studied in their ADBI Working Paper Series, The Status of Financial Inclusion, Regulation, and Education in India, in depth analysis of the financial inclusion status, development of the policy initiatives by the Government, the administrative structure and the entire model reflecting the current financial inclusion status in India.

Singh C, Mittal A (2014) studied the issues and challenges of Financial Inclusion in India by focusing on the role of Business Correspondents, as an intermediary between bank and the customer, role of post office, fair price shops, ATMs, Kiosks, etc. to facilitate the reach to the end user of the banking services.

Kharuri H, T. Manjunatha (2016) concluded that SHGs and linking their savings account to bank through financial inclusion has made drastic changes in the life of rural people and even on their standard of living.

Kumar L (2017) studied remarkable improvement in households after joining Self-Help Groups in four out of seven variables governing self-worth: Savings Bank Account, Income Level, Recognition in the Family, Bank Loan Availed.

Rathore R & Garg M (2013) analyzed that SHGs contribute to solving the problems of inadequate housing and urban services as an integral part of poverty alleviation programmes.

K.Somasekhar (2015) studied SHGs play a significant role by developing thrift habit and providing credit as and when required. He also examined the performance of SHGs, Bank Linkage for financial inclusion and rural livelihoods.

Gupta (2017) in his literature study concluded that majority research has been carried out in Maharashtra at Mumbai and Nagpur, West Bengal, North-east region covering Assam, Meghalaya and Mizoram, and Southern states of Karnataka, Tamil Nadu, Andhra Pradesh and Kerala. Financial inclusion index have been used as a measure. After the launch of Pradhan Mantri Jan Dhan Yojana progress of the supply side initiatives of government to achieve financial inclusion have been carried out.

### **Objectives of the Study**

- To analyze the Factors considered by the customers while opening a bank account
- To study Demand Side Barriers responsible for households for not having a bank account.
- To study the factors can be derived as the key determinants from demand and supply side towards achievement of Financial Inclusion

## Research Methodology:

Descriptive research design is adopted to conduct this study and structured questionnaire is used as a tool for collecting primary data. The sampling technique used is convenience sampling and the sample size is 110 respondents who are working with banks, which forms the core of the supply side of financial inclusion.

SPSS is used to analyze the data collected and get statistical outputs to draw meaningful conclusions. Statistical tools like:

- Frequency Analysis is used to study the frequencies or count of various demographic variables of the respondents,
- Weighted Mean is used to rank the factors and understand their significance and

Factor analysis is carried out to extract the significant factors.

## Data Analysis

**Table 1: Frequency Analysis of Demographic Variables of Respondents**

AGE			
Age Group	Frequency	Percent	Remarks
Less Than 30	36	32.7	Majority respondents belong to the age group of 31-40 years.
31-40	62	56.4	
41-50	12	10.9	
Education			
Education	Frequency	Percent	Remarks
Graduate	71	64.5	Majority respondents were graduates
Post Graduate	36	32.7	
Other	3	2.7	
Experience			
Experience	Frequency	Percent	Remarks
Less Than 2 Years	27	24.5	Majority respondents had experience of at least 2 years
2-5 Years	83	75.5	

**Table 2: Demand Side Analysis: Factors Considered by the Customers while Opening a Bank Account**

Factors	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly Agree 5	Weighted Sum	Weighted Mean	Rank
Receiving government remittances	0	0	57	27	26	110	3.72	2
	0	0	171	108	130	409		
Making deposits	0	0	16	78	16	110	4	1
	0	0	48	312	80	440		
Taking loans	0	45	27	38	0	110	2.93	4
	0	90	81	152	0	323		
Money transfers	0	61	46	3	0	110	2.47	6
	0	122	138	12	0	272		
Availing financial services	0	54	19	37	0	110	2.84	5
	0	108	57	148	0	313		
Savings	0	22	42	37	9	110	3.3	3
	0	44	126	148	45	363		

From the above table we can conclude that, according to the respondents' view point, factors that can be ranked as a consideration of banking customers visiting a bank branch are as follows:

Rank 1: Making Deposits

Rank 2: Receiving Government Remittances

Rank 3: Savings

Rank 4: Taking loans

Rank 5: Availing Financial Services

Rank 6: Making Money Transfers.

**Table 3: Demand Side Barriers: Factors Responsible for Households for not having a Bank Account**

Challenges	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly Agree 5	Weighted Sum	Weighted Mean	Rank
Illiteracy	0	6	16	75	13	110	3.8	1
	0	12	48	300	65	425		
Lower Income	0	8	28	63	11	110	3.7	2
	0	16	84	252	55	407		
Unawareness of banking products & services	0	22	26	55	7	110	3.42	3
	0	44	78	220	35	377		
Lack of Required Documents	0	46	19	44	1	110	3	4
	0	92	57	176	5	330		

From the table 3 we can conclude that, according to the respondents' view point, factors that can be ranked as challenges of households for not having a bank account are as follows:

Rank 1: Illiteracy

Rank 2: Lower Income

Rank 3: Unawareness of banking products & services

Rank 4: Lack of required documents

**Table 4: Factor Analysis: Factors affecting Financial Inclusion  
 (KMO and Bartlett's Test)**

<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</b>		.697
Bartlett's Test of Sphericity	Approx. Chi-Square	656.662
	df	78
	Sig.	.000

Here, KMO = 0.697 which is more than 0.5, indicates that the sample is adequate and we may proceed with the Factor Analysis.

For Bartlett's test of sphericity tests values is 0.000 (less than 0.05) of the significance level which suggests that a factor analysis is useful with the data and therefore the Factor Analysis is valid.

**Table 5: Total Variance Explained**

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.186	32.203	32.203	4.186	32.203	32.203	3.251	25.004	25.004
2	2.335	17.961	50.165	2.335	17.961	50.165	2.389	18.377	43.382
3	1.402	10.788	60.953	1.402	10.788	60.953	1.909	14.683	58.065
4	1.073	8.251	69.204	1.073	8.251	69.204	1.448	11.139	69.204
5	.969	7.451	76.655						
6	.852	6.551	83.207						
7	.569	4.379	87.585						
8	.441	3.395	90.981						
9	.364	2.797	93.778						
10	.242	1.863	95.641						
11	.207	1.592	97.233						
12	.189	1.457	98.689						
13	.170	1.311	100.000						

Extraction Method: Principal Component Analysis.

Following factors can be derived as the key determinants from demand and supply side towards Financial Inclusion

**Table 6: Factors Extraction**

<b>Factor 1: Affordability &amp; Awareness Of Customers And Structural Constraints</b>
Affordability of financial products & services
Reduced freedom in decision making
Lack of infrastructure
Lack of awareness of people
<b>Factor 2: Access To Financial Products &amp; Attitude Of People</b>
Access to financial products & services
Attitude of people
Attitude of staff
Staff shortage
<b>Factor 3: Involvement Of Customers Towards Banking</b>
Financial awareness & literacy
Control over money lenders & private banks
Lack of interest of people
<b>Factor 4: Proximity Of Financial Products</b>
Availability of financial products & services
Overdependence on money lenders

## Conclusion

Considering the demand side, the primary reason of the banking customers to visit bank branch is to make deposits and followed by receipt of government remittances. While the barriers at Demand Side are illiteracy among the customers, followed by lower income and unawareness of financial products & services. These are the biggest challenge towards access of banking services.

Unawareness of the households for financial products and services due to illiteracy/lower education plays the vital role in creating access hurdle for the respondents. Further, Unaffordability of the households for financial products and services due to lower income, and Attitude of people towards banking services showing less interest in availing financial services.

On the Supply side, Constraints like infrastructure in terms of number of bank branches, Staff shortage at the bank offices and Proximity of financial products and services in terms of distance of banks from the household's location are major concerns.

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