

# An Empirical Study on the Barriers to Financial Inclusion

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## ABSTRACT

*Access to finance or financial inclusion plays a crucial role in order to attain rapid and disciplined growth. The challenge for the administrators is to take the levels of economic growth to all sections of the society and to all parts of the country. However, for achieving the target of inclusive growth there is a need of resources and for resource generation and mobilization, financial inclusion is required. Financial inclusion may be defined as the process of facilitating banking and other financial services to the low-income group and unprivileged section of the society at an affordable cost (Rangarajan Committee, 2008). The successful achievement of financial inclusion can be done by ensuring most effective and transparent financial services. In India, GOI and RBI has taken several steps to strengthen the process of financial inclusion but there are some barriers from the supply side that are faced by the commercial banks and other financial institutions that hinder the pace of financial inclusion in the country.*

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## 1. Introduction

The pace of Indian banking industry has been noteworthy over the past decade. This is depicted from the higher number of bank branches opened, credit expansion, expansion in productivity & profitability and more focus on financial inclusion which have made Indian banking industry more vibrant and dynamic. The increased use of technology has brought a big change in the working curriculum of banks. But still there are some challenges that are faced by the banks which restrain them from achieving full financial inclusion. Some of the challenges are as follows which has been extracted from the literature review:

1. Financial Literacy: As per the study conducted by World Bank Group, it has been identified that lack of financial awareness among the people prevent them from using the right kind of products and services that are best suited to their needs. Lack of financial literacy restricts people ability to be responsive of financial opportunities, make wiser choices and to take efficient action to perk their fiscal wellbeing.
2. Lack of ID & residential proofs among customer: One of the main factors for the exclusion of people from formal financial system is the lack of formal identification proof that needs to be submitted for opening a bank account or getting any social benefit transfer directly into the bank account. As majority of the urban poor are migrants in Delhi, they lack proper identification proof of address as they don't own houses on their names, and hence are not able to connect themselves with the formal financial system.
3. Lack of Customized banking products: One of the major supply side barriers to financial inclusion is the lack of customized banking products that are best suited to the needs of the urban poor. There are certain statutory requirements to maintain a bank A/C

such as having minimum balance in the account or the closure of accounts by the banks due to less frequency usage does not suit to the needs of low-income group.

4. High Transaction Cost: Most of the bank's manager have posed the problem of providing products and services that are suited to the needs of low-income people on account of high transaction cost that are associated with such accounts due to small value accounts having few transactions. This makes bank branch in poor areas unviable.
5. Lack of adequate infrastructure: Most of the banks lack the core infrastructure that is required for complete financial inclusion to take place.
6. Structural Procedural Formalities: It is very difficult for the poor people to read and understand the terms and conditions, account opening formalities and other procedural formalities for applying to a kind of loan due to lack of basic education and financial awareness.
7. Irregular Earnings: Income level among the poor people is one of the prominent factors that deter the unprivileged section of the society from availing the financial services from the banks. A major portion of the urban poor is in the seasonal employment. Hence, the level of income decides their income and saving patterns.
8. Limited Basic Education: Some individuals dealing with the bank staff find it difficult to understand the terminologies used by bank staffs due to the lack of basic education among them.
9. Language Problems: There are many people who are not comfortable with the English or even the Hindi

language, especially the migrant laborers who left their native places in search of job and earn their livelihood in other metropolitan cities. They face challenges in even performing the basic bank transactions as they are not capable of communicating their problems with the bank personnel's.

## 2. Review of Literature

As per the reports published by Forum IAS on Financial Inclusion Challenges (2019) Inappropriate financial products and services, attitude of employees, lack of proper identification proof, high transaction cost is some of the barriers from the providers of financial side that hinder the process of financial inclusion in India.

Sunil B. Kapadia & Venu Madhav (2018), in their research paper "Financial Literacy and Financial Inclusion in India" have identified the demand side and supply side barriers effecting financial inclusion in India. From the demand side low literacy levels, lack of financial awareness, irregular earnings, frequent small value transactions, lack of trust in formal financial system are some of the hurdles to financial inclusion. Low outreach of financial institutions, strict regulatory framework, uniform products for all sections of the society, high transaction cost and soaring bank charges are some of the impediments from supply side to financial inclusion. He suggested some of the alternatives to overcome the issue of financial exclusion that include digitizing payments that also include direct transfer of wages and government transfer directly into the accounts of the recipients, channelizing domestic remittances through accounts, payment of utility bills and other bills through accounts etc. can help expanding the outreach of financial system to the excluded population.

Kanittha Tambunlertchai (2017) concluded that insufficient income among individuals result in lesser saving and are less likely to use formal network. Secondly, those who work in informal sector are less likely to have formal financial products irrespective of the fact whether they are self-employed or are employed somewhere else. He also identified that less education is another socio-economic factor that has a significant impact on the use of financial products and services by the individuals.

Niranjan J N(2017) in his research paper "A Case Study of Barriers to Digital Financial Inclusion of Auto-Rickshaw Drivers in Viman Nagar, Pune, Maharashtra "examined the barriers of digital financial inclusion and also suggested the ways to overcome them. He identified that financial literacy regarding the digital medium of finance, high cost of smart phones and expensive internet data, increase in internet frauds, lower level of income among respondents are some of the impediments to digital financial inclusion. He concluded that role of Government is important for enhancing the outreach of digital technology to include more people to the formal financial system.

K. Sukumaran (2015) concluded that lack of customized banking products and services, distance of banks from individuals, strict KYC norms, structural procedural formalities,

stiff terms and conditions are the common supply side barriers to financial inclusion.

Ghatak (2013) observed that most important factors from demand side includes the Income (.442), Accessibility (.650), Assets (0.054), Culture (.303) and Literacy (.447) among individuals in which accessibility has the highest correlation followed by the remaining factors. He concluded his study by focusing that for complete financial inclusion to take place, not only supply side but demand side should also be focused to provide individuals timely and adequate financial services.

## 3. Objectives of the Study

The present study attempts to fulfill the following objectives:

1. To analyze the problems faced by the managers of scheduled commercial banks in achieving financial inclusion in India.
2. To know acuteness of each of the identified problems by following the ranking method.

## 4. Research Methodology

### The Sample

The study is based upon the primary data collected from the managers of scheduled commercial banks through the questionnaire. The details of the respondents are as follows:

**Table 1: Demographic Profile of the respondents**

Characteristics	Demographic Variable	n	%
Type of Banks	Public Sector Banks	135	67.5
	Private Sector Banks	65	32.5
Gender	Male	125	67.5
	Female	75	32.5
Designation	AGM	5	2.5
	Chief Manager	33	16.5
	Senior Manager	48	24
	Manager	61	30.5
Years of Service	Assistant Manager	53	26.5
	Up to 5 years	37	18.5
	6 to 10 Years	51	25.5
	11 to 15 Years	45	22.5
	16 to 20 Years	26	13
	Above 20 Years	41	20.5

### Instrument of the Study

The primary data was collected through the pre-determined questionnaire specifically meant for the managers of scheduled commercial banks. The questionnaire had been prepared in two parts: Part A covers the demographic information of the respondents; Part B covers the covers the problems to financial inclusions that are extracted though literature reviews. These problems were ranked by the respondents to know the acuteness of each problem.

## 5. Data Analysis

After checking the data set for any missing values or improper coding descriptive analysis of the data has been done for every variable in questionnaire. This has been done using

the MEGASTAT Add In using frequency distribution for qualitative data. The details are mentioned in table 2:

**Table 2: Frequency Distribution of Data**

	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Rank 7	Rank 8	Rank 9
HIGH TRANSACTION COST	65	30	29	21	19	14	12	4	6
LACK OF ADEQUATE INFRASTRUCTURE	25	22	28	28	29	28	21	11	8
STRUCTURAL PROCEDURAL FORMALITIES	16	32	30	27	24	29	25	10	7
LACK OF CUSTOMIZED BANKING PRODUCTS	5	12	24	33	32	35	34	20	5
LACK OF ID PROOF	21	27	21	32	25	15	20	31	8
LIMITED BASIC EDUCATION	21	31	29	17	29	33	23	12	5
LIMITED FINANCIAL AWARENESS	38	32	22	18	24	25	30	11	0
IRREGULAR EARNINGS AMONG POOR	7	10	14	20	15	17	31	76	10
LANGUAGE PROBLEM	2	2	2	3	6	5	7	24	149

As we know Rank 1 has the highest weighted score(=9) followed by Rank 2(=8), Rank 3 (=7), Rank 4 (=6), Rank 5(=5), Rank 6(=4), Rank 7 (=3), Rank 8 (=2), Rank 9 (=1), we can

calculate the total weighted score of each variable and subsequently ranks were given to each of the variable. The total score is shown in table 3:

**Table 3: Weighted Score of each Variable**

S. No.	Variable	Total weighted Score	Overall Rank
1.	High Transaction Cost	1355	1
2.	Lack of adequate infrastructure	1115	4
3.	Structural Procedural Formalities	1110	5
4.	Lack of Customized banking products	954	7
5.	Lack of ID & residential proofs	1059	6
6.	Limited Basic Education	1117	3
7.	Limited Financial Awareness	1192	2
8.	Irregular Earnings among poor	759	8
9.	Language problem	334	9

The above table shows that the most common problem from supply side to financial inclusion is the high transaction cost that is associated with these small accounts. Secondly, limited financial awareness among the marginal people makes it difficult to achieve the target of complete financial inclusion in the country. Thirdly, lack of basic education among these people creates hurdles for the bank staff to make them understand even the basic banking terminologies, resulting decreased pace of financial inclusion. Lack of adequate infrastructure holds the fourth position to the problems of financial inclusion in India. The fifth consideration is the complex structural procedure followed by the banking industry makes it difficult for the poor people to associate themselves with financial sector as they have limited basic education as well as also have the limited financial literacy. As most of the people living in slum areas are migrant laborers, they lack ID and residential proofs which are the mandatory documents for opening bank accounts or for availing any banking services. Next problem that is hurdle to financial inclusion is the lack of customized banking products for the poorer section of the society. Irregular earnings among the people hold the eighth position in the series to the problems to financial inclusion. As most of these laborers are seasonally employed, they don't have regular saving patterns and are not able to use banking services to the fullest. Lastly, due to language issues banking

personnel are not able to communicate fully with these segments resulting into financial exclusion in the country.

## 6. Conclusion and Suggestions

It is usually accepted that by providing access to formal financial sector we can uplift the economic welfare of the people of the country which ultimately results into the economic development of the country. The study has escorted some of the very important findings on the problems which are faced by the commercial banks while achieving the financial inclusion in India. The sample consisted of respondents (managers) from both public sector banks and private sector banks. Summary of the findings from the analysis in this chapter is as follows:

- The present study has extracted the factors that are responsible for not achieving the 100% financial inclusion in the country. The factors were identified from the literature review and the present study helped us in knowing the acuteness of each factor responsible for financial exclusion in the country.
- It is clear from the above discussion that one of the major challenges to financial inclusion is the customers financial illiteracy with regard to banking products and services. By improving the financial awareness and literacy among the individuals, better financial decisions that suits to their needs can be

ensured. At the same time more effective and low-cost alternatives should be utilized which ultimately results into increased savings among the individuals.

- As one of the major barriers to financial inclusion is the high transaction cost associated with these kind of bank accounts, this problem can be tackled by inculcating the habit of savings among the poor to have more deposits in the banks. As the deposits will increase, the transaction cost per account would automatically decline. Secondly these people should be guided to use more electronic channels for depositing and withdrawing money from the bank accounts such as use of ATM cards, mobile banking and internet banking etc. to reduce the manual efforts by the bank personnel.
- Many schemes are implemented by GOI and RBI to include the vast segment especially the poorer section of the society to the financial system. But, regular monitoring of these schemes is necessary so that continuous benefits are ensured to the marginalized people.
- It is clear from the present study that one of the major challenges to financial inclusion is the customers

financial illiteracy with regard to banking products and services. By improving the financial awareness and literacy among the individuals, better financial decisions that suits to their needs can be ensured. At the same time more effective and low-cost alternatives should be utilized which ultimately results into increased savings among the individuals.

- The problem of lack of identity proofs can be sorted out by attaching the Aadhar card to each bank account and the process of it has already started. Secondly, the residential proofs of their permanent address of their native place can be kept as security for any future reference or the letter from their present employer may be taken as their identity proofs.
- As one of the supply side barrier to financial inclusion is the lack of customized and low cost products, this problem can be tackled by "Small Finance Bank Approach" i.e. opening small banks in rural or urban slum areas to provide financial products and services that are needed locally as these banks will have emplacement of decision making close to the banker which would be in direct contact with the client and thus decisions can be taken without any delay.

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