Analysis of key determinants affecting financial inclusion

Poonam*, Archna Chaudhry**

Department of Economics, Kurukshetra University, Kurukshetra, Haryana, India
*poonam.eco01@gmail.com, **archnachaudhry@kuk.ac.in

Abstract

Objective: The present study isto find the scope of financial inclusion in the District Hisar of Haryana (India) and to estimate the effect of socio-economic factors on financial inclusion.

Methods: The primary data has been collected through structured questionnaire on the basis of stratified/multi stage random sampling method and Binary Logit Model was used for analysis of data.

Findings: This study has described status of financial inclusion of district Hisar thorough three parameters *i.e* bank, Post-office and self-help group taking four variables such as bank account, savings in banks, account in post offices and member of self- help groups.The survey has shown that 66 per cent people in Hisar block have savings in banks whereas 56% people in Hansi block of district Hisar of state Haryana. The independent variable, Income has positive and significant effect on dependent variable savings in banks.

Application: It has been examined in the present study that there was lack of financial literacy among people, especially, among rural people. People were not aware about interest rates on different types of financial services like savings in banks, loans and other benefits from insurance policies. Therefore, Reserve Bank of India and National Agriculture Bank for Rural Development should take necessary steps to literate the people regarding financial services beneficial to them by organizing special campaigns. Also, the study has major application in constructing the new policy framework by government as well as banks.

Keywords: Financial inclusion, Poverty, Bank, Post Office, Self Help Groups.

1. Introduction

Financial Inclusion means connecting people with financial services at affordable cost. Finance serves a pivotal role in alleviation of poverty and it is discussed as a booster of economy by many eminent economists all over the world [1]. The survey of NABARD shows that 50.6% of people save in India in financial institution. According to "The World Bank Groups" [2], "Financial inclusion is explicated as ingress of personages and businesses to affordable monetary services including products in responsible and sustainable way". Inclusive finance does not mean every person use all financial services but choose that service that he/she desire [3]. Finance serves a pivotal role in alleviation of poverty and it is discussed as a booster of economy by many eminent economists all over the world [1,4, 5]. Financial inclusion helps to increase the number of savings bank accounts and size of business. Credit facility of banks and micro credit strengthen people to do work and these facilities enable them to get rid of poverty [6] and unemployment. By connecting financial services, there will be sustainability in their economic and social life. Within the reach of credit, and deposit products help to create jobs for the poor and vulnerable people. Financial inclusion increases the living standard of people [7-10]. Therefore, financial inclusion plays very empirical role in increasing growth and development of every economy. However, a limited research has been done in the state of Haryana, especially district Hisar. Therefore, the present study was planned in district Hisar of state of Haryana with the following objectives:

1. To find the scope of financial inclusion in district Hisar.
2. To estimate the effect of socio-economic factors on Financial Inclusion in district Hisar.

2. Methodology

It is based on primary source of information. The primary data has been collected through structured questionnaire on the basis of stratified/multi stage random sampling method.Thesample size was taken as 411 households.

A household was defined group of persons who had blood relation and sharing one kitchen for the primary survey. Binary Logit Model was applied to find the effect of socio-economic factors on financial inclusion.

1. Binary logistic curve

Logistic regression model is linear regression model. In this model more independent variables and one dependent variable taking binary value, is taken, such as pass/fail, win/lose and having savings in bank/ not having. It is the maximum likelihood method that has been employed to estimate the binary logit function using SPSS software. In the present work it has considered to examine the effects of socio-economic factors such as income of the households (Y), land ownership (L), education level (E) and age of respondent of the household (A), gender denoted as (G), cast as (C) and occupation of respondent is taken as O, on the decision of savings in bank and having mobile banking and have specified the logistic function as:

$$P = 1/1 + e^{-(\beta_0 + \beta_1 A + \beta_2 G + \beta_3 C + \beta_4 E + \beta_5 Y + \beta_6 L + \beta_7 O)}$$

which is non-linear in parameters and variables.

3. Results and Discussion

Financial inclusion is the process of ensuring access to financial services by vulnerable groups such as the weaker sections and low income groups at an affordable cost [3]. This study shows the comparative analysis of two blocks *i.e* Hisar and Hansiof district Hisar by taking four variables like accounts in banks, savings in banks, accounts in Post-offices and member of self-help groups.The survey shows that all the surveyed people have accounts in banks. It was observed from the survey that at least there was one member of the family has account in bank. One account in the family is considered financially included household.The survey people told the reason of having accounts in banks due to government policies like pension, scholarship, gas subsidy, salary purpose, admission purpose, beneficial insurance policy by government.

As per the reports of present study, in Hisar block 66% of people save in banks whereas, in Hansi block only 56% of people save in banks. This was due to comparatively high living standard of the people inhabiting block Hisar as compared to Hansi block. These dayssself-help groups are playing encouraging role in increasing financial inclusion among poor and underprivileged people. According to present study, it has been recorded that in Hisar block, 32% of people were member of Self Help Groupswhile this value was reported as 25% for Hansi block. Post-offices are also important determinant of financial inclusion. In this economic revolution, government has started India Post Payment Bank (IPPB).

This step will increase efficiency in transparency. It has been shown that 32% population of Hisar block has account in Post-offices, whereas, only 30% people of Hansi block are having the same.For calculating the results of logit model, seven independent variables such as age, gender, cast, income, education, land and occupation has been taken, whereas, one dependent variables *i.e.* savings in banks.

It is clear in the present study that the income of households has a significant and positive effect on the odds ratio in favour of savings in banks [Table 1]. On the other hand education, land, occupation, cast, Gender and Age have no significant effect on financial inclusion. In order to know the effect of one unit change in a regresser on the odds ratio, we subtract one from the antilogarithm of the parameter estimate (as reported in the last column) and multiply by 100 after subtracting one to get the percent effect on the odds ratio. Therefore, if there is an increase of ₹ 1000 in the income of the household, the odds ratio in favour of financial inclusion increases by 58 times more than who have less income. Cox and Snell-R^2 and Nagelkerke-R^2 are 0.63 and 0.85 respectively, significantly different from zero. The logit model has classified 93.4% of variables and has been proved as a good analytical tool [Table 1].

Table 1. Maximum likelihood estimates for savings in banks of district Hisar

Variables		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1a	Age	-.511	.397	1.657	1	.198	.600
	Gender	-.120	.595	.040	1	.841	.887
	Cast	.027	.272	.010	1	.920	1.028
	Education	.146	.314	.216	1	.642	1.157
	Income	4.077	.536	57.853	1	.000	58.949
	Occupation	-.138	.159	.754	1	.385	.871
	Land	.347	.344	1.016	1	.313	1.414
	Constant	-10.972	2.282	23.125	1	.000	.000

Cox & Snell R-square = 0.63
Nagelkerke R-square = 0.85
PAC= 93.4%

4. Conclusion

The first stage of financial inclusion *i.e* bank account has covered successfully. All surveyed people have accounts in banks. It means that government policies have great impact on financial inclusion. The savings in banks depends upon income of people. If the people have more income, they will save more. The extent of financial inclusion through self- help groups and post-offices has less coverage.

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