Chapter: 04

CRAFTING AN INTEGRATED FINANCIAL SYSTEM TO FOSTER FINANCIAL INCLUSION IN INDIA

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ABSTRACT

Background: *Financial inclusion is the provision of low-cost, easily accessible, and relevant financial products to individuals and businesses who did not previously have access to these items. The overarching goal of the research is to assess the efficiency of financial inclusion among institutions. The research covered components that explained financial inclusion, such as awareness of bank goods and services, usage of banking products and services, challenges with using banking services, and important financial inclusion characteristics.*

Methodology: *The sample consisted of 200 SBI clients, and the data collected was utilised to evaluate the survey's reliability, as well as to analyse quantitative data using the Statistical Package for Social Scientists (SPSS) once the completeness was verified.*

Findings: *According to the paper, an integrated financial system may be built in order to achieve integrated economic growth in India. The article explains the need for an inclusive financial system, the importance of microfinance institutions in increasing financial literacy, and the significance of technology in providing low-cost financial services to the poor.*

Keywords*: Innovative, Financial Inclusion, Customizing Offerings, Innovative Channel, Risk Mitigation*

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1. INTRODUCTION

The historical origins of financial inclusion (FI) can be traced back to the early 2000s and have now become a well-established concept in all countries, regardless of their economic development achievements. Financial inclusion involves the integration of financial products and services into non-financial sectors to address individual financial needs through sustainable practices, ensuring affordability and accountability. It is designed to extend essential services within a formalized financial framework to particularly vulnerable individuals who are often excluded from traditional banking systems due to their low income. Financial goods and services, such as loans, insurance, money transfers, pensions, and savings, come in various forms and are delivered through different channels, including financial institutions, cooperatives, insurance brokers, and commercial banks. Financial inclusion is recognized as a crucial economic requirement and enjoys popularity among academics, policymakers, legislators, financial institutions, both official and informal, and the general public. International efforts, led by organizations like the G20 and the World Bank, have been made to promote financial inclusion in low-income countries as a means to reduce poverty and enhance economic participation.

The Dissatisfaction Theory of financial inclusion posits that financial inclusion initiatives in a country should initially target individuals who had previously engaged with the formal financial sector but left due to dissatisfaction with its rules or unfavorable experiences with firms and agents. This theory suggests that it is more feasible to re-engage those who left the formal financial sector due to dissatisfaction if the areas of discontent within the sector have been adequately addressed (Ozili, 2020). The Dissatisfaction Theory lends theoretical support to the concept presented in this paper.

Innovative methods of delivering financial services can have a transformative impact on impoverished families. Even small increases in access to loans can significantly improve well-being, such as enabling women to purchase sewing machines and start small businesses. It is increasingly recognized that expanded access to a wider range of financial services empowers economically disadvantaged individuals to increase or stabilize their incomes, build assets, and become more resilient to financial shocks. Access to proper and affordable credit, savings, payment and money transfer services (both domestically and internationally), as well as insurance, is of paramount importance.

Shockingly, there are still approximately one billion people who lack even a basic bank account, but they have access to mobile phones. As the costs of information and communication technology continue to decrease, leveraging technology to address financial exclusion has become increasingly feasible. The equation of cost and access in technological innovation is shifting, making it economically viable for financial service providers, often in collaboration, to offer a broader range of products and services to the underserved population.

Nevertheless, improving financial inclusion may be easier in certain economies than in others. This study outlines the types of market infrastructure and government regulations that could enable banks to rapidly advance financial inclusion through innovative methods such as:

➢ Tailored offerings

➢ Introduction and implementation of new distribution strategies

➢ Utilizing unique risk mitigation and credit profiling methods

2. LITERATURE REVIEW

2.1 Existing Review

Purva Khera, Stephanie Ng, Sumiko Ogawa, and Ratna Sahay (2021) In recent years, using digital financial services has been a significant factor in increasing financial inclusion in the developing world. Economic growth may be aided by financial inclusion, according to the statistics. development, can digital financial inclusion have the same results? What drives the digital inclusion of finance? Why in certain nations but not in others does it make greater progress? Khera et al(2021) .'s financial inclusion indexes are used to answer these issues for 52 developing nations. The exogenous component of digital financial integration, as we use the cross-sectional instrument variable method, is positively linked with per capita growth of GDP in 2011-2018, in which case, digital financial inclusion may have a positive impact on economic growth. Random logit effects and fractional logit effects are discussed. Access to infrastructure, financial literacy, digital literacy, and institutional literacy are identified by empirical estimations. as the main insurmountable barriers to financial inclusion In turn, these findings are utilized to influence policy suggestions on digitizing financial services in order to foster financial inclusion.

Sil Nandini (2020) Financial inclusion is the inclusion in the official financial sector of all sectors of society. Inclusive growth and thus sustainable development and economic growth are essential. There is an urge to achieve equitable development worldwide, yet the workings of a developed, developing, transitional and impoverished nation differ widely. Therefore, policies in one do not function effectively in another. The effect of financial integration on inclusive development in India is analysed via 2 subcategories – demand-side financial inclusion indicators and supply-side financial inclusion indicators between 2010 and 2017. In this context, it has been observed that the supply-side indicators affect directly four out of five sectors contributing to inclusive growth while those with a mixed effect on the demand-side indicators. Finally, several suggestions are presented to better promote inclusive development via financial inclusion.

2.2 Preliminaries

Jianguo Wei and Md. Qamruzzaman (2019), testing causality in a Granger fashion using System GMM was conducted. Panel ARDL's research results supported the beneficial link that was found, both in the long term and in the short term, in between financial innovation and financial inclusivity. Given the nonlinearity of the Wald test shows the presence of an unbalanced connection with causal test findings both

in the short term and in the long term. The research results support the retroactive hypothesis that there is both short-length and long-lasting bidirectional causation between financial innovation and financial inclusion. Since the research results have demonstrated a crucial link policy that strikes a balance between financial innovation and financial inclusivity lines are proposed in order to help build a dynamic financial sector via financial inclusion and financial innovation.

Inutu Lukonga (2018) Inclusion via financial technology is emerging as a new way of attaining financial inclusion and an overall aim of sustainable development. Fintech in MENAP and CCA continue to fall short of their promise and have had little impact on financial inclusion. The study examines fintech landscapes in the MENAP and CCA areas, highlights the limitations on the development and contribution of fintech to inclusive growth and takes into account policy alternatives for unlocking potential.

Ifeanyi Onuka (2016) Full financial integration was recognized Nigeria's economic development must be inclusive. According to the research, a descriptive survey method was used that uses a questionnaire to generate financial inclusion data from Banks, insurance firms, regulators and telecommunications providers offer contemporary financial services to all homeowners including savings, credit, insurance, and payments. Financial inclusion of policymakers, academics and development organizations across the world has continued to grow. It seeks to integrate the unbanked people into the official financial system so that they may access financial services from savings, payments and transfers to credit and insurance services. The research shows that financial inclusion is an audacious step towards inclusive economic growth. Every effort should be made to make formal financial services accessible to all parts of the population, the study says accessible, affordable and inclusive economic developments should be supported.

3   RESEARCH METHODOLOGY

3.1 Research Design

The research Design is Descriptive in Nature. The main data are quantitatively analyzed. In the study of the demand side information, the analysis of logistic regression, especially the binary logistic regression with categorical variable, is widely utilized.

3.2 Sampling Method

Sampling stratified was employed for the selection of a representative sample. The stratified sample technique was employed as the Equity Bank divided the current customer base into peers.

3.3 Sample size

The sample comprised of 200 SBI bank customers. Deciding the target demographic is one of the most important aspects for any research project. Target population is defined as a particular group of people or things to collect data or observe to create the necessary data structure and information.

3.4 Data Collection

3.4.1 Primary Data

Customers/beneficiaries and financial inclusion bank employees gathered primary data in Haryana with the assistance of a standardized questionnaire.

3.4.2 Secondary Data

Secondary information was gathered from Haryana Collector's office records and financial inclusion reports in Lead Bank and branches of SBI.

3.5 Statistical tools used

The main information from 863 residents has been edited, processed, categorized and analyzed using the Social Studies Statistical Package (SPSS Version 17). Descriptive statistics such as mean etc, T-test and Correlation were the instruments utilized for analysis of primary data.

4. DATA ANALYSIS

4.1 Demographic Information of Respondents

The investigator deemed it essential to establish the demographic information of respondents which included gender, type of account held, accounting periods, and in order to evaluate innovative variables affecting financial inclusion in the banking sector. This was done on the top three customers, company and retail As shown in tables and graphs below the distribution of the respondents according to the aforementioned demographic characteristics.

- **Gender**

The majority of those that participated in the survey were male in terms of gender. As per the response from Table 1, 152 (76%) were male, and the remaining, 48 (24%), were female. As a result of this that the majority of account holders are males.

Table 1: Respondents Gender

		Frequency	Percent	Cumulative Percent
Valid	Male	152	76	76.2
	Female	48	24	100.0
	Total	200	100.0	

This may also reflect the fact that more males have bank accounts rather than women. whether one of gender utilizes innovative distribution methods is another separate topic of research

- **Age of the respondents**

52.4% of responses were between 25 and 30 years old, 28.6% between 31 and 35 years old, 9.5% between 36 and 40 years old and 9.5% between 41 and 45 years old. The findings suggest that most of the respondents were still young between 25 and 30 years of age.

- **Duration in the Bank**

For a time, shorter than 3 years, 9.5% of respondents ran bank accounts; 57.10% were accounts run from 3 to 5 years; 23.80% were bank accounts held over a period of 6 to 10 years; the remaining 9.50% were bank accounts managed over a period of ten years. The findings indicate that the majority of respondents held a bank account for 3 to 5 years. Most consumers are thus more experienced in account transactions so that their views are trustworthy.

- **Bank accounts Held.**

Most of respondents 98 (49%) are Savings Accounts Operating, 74 (37%) are Current Accounts Over, 14 (7%) are Super Junior Accounts Operating and 14 (7%) are Fixed Deposits. The fact that the majority of clients run a saving account because of their nature may be inferred from this. You can start, run and maintain easily.
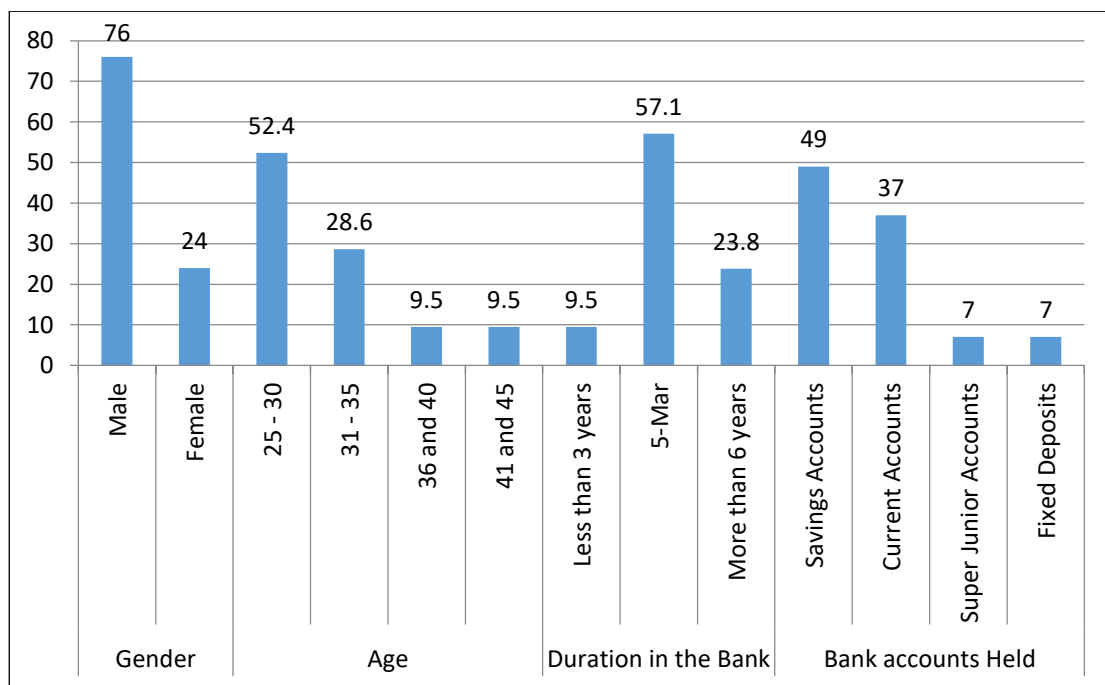
Figure 1: Demographic study

4.2 Discriminant analysis between reason for not having bank account and different levels of poverty levels

The perspective since there is no bank account in the lower poverty level group may be different because there is no bank account in the lower poverty level group. It is essential that the discriminant be identified as not having a bank account with the assistance of two discriminating groups, for certain policy consequences. At first, the mean differences, statistical importance and discriminatory power were calculated. The results shown in the table 2 below:

Table 2: Mean difference and discriminant power for reason for not having bank account

Reason for not having accounts	Mean Score		Mean Difference	't' Statistics	Wilk's Lambda
	Below poverty level	Above poverty level			
Lack of financial knowledge	3.8824	3.6724	0.1921	2.9658**	0.9891

Low income and assets	4.1429	4.1227	0.1176	2.1284*	0.9972
Illiteracy/language	3.4200	3.3415	0.2531	3.4781**	0.9891
Branch timings	3.3157	2.8449	0.3465	5.1284**	0.9811
Banking procedure arecumbersome	3.5164	3.4957	0.0385	0.5781	0.9864
Documents required for opening	3.6681	3.3910	0.2802	5.4824**	0.9894
Unsuitable banking products/schemes	3.5864	3.5164	0.0545	1.0251	0.9562
Transaction costs	3.9861	3.8959	0.1952	3.4316*	0.9705
Attitude of bank officials	3.4973	3.6135	-0.1253	-1.6352	0.9851

** Significant at 1 per cent level

* Significant at 5 per cent level

In the case of "lack of financial expertise, low incomes and assets, analphabetism / language, branch timings, papers needed to establish the account and transaction costs," the substantial mean differences are statistically significant. The highest mean variances are noted for "branch timings, the necessary paperwork for account opening and language / illiteracy." As the mean difference is 0.3465, 0.2802 and 0.2531. In the instance of 'banking,' the highest discriminant power is noted as being burdensome, inappropriate banking products, banks' attitudes, and low incomes and assets,' because Wilks Lmbda has 0,9864, 0,9562, 0,998 and 0,9972. The main cause not having a bank account was added to estimate two discrimination group analyses. The unstandardized method for estimating the function was followed. The estimated role is,

$$Z = -3.868 + 0.186\ X_1 + 0.432\ X_2 + 0.422\ X_3 + 0.307\ X_4 + 0.405\ X_5 + 0.074\ X_6$$

4.3 Discriminant analysis between perception about the services of the public sector banks account and different levels of poverty

The perception of the services of the banks in the public sector account in the lower poverty level group may vary from the perception of the services of banks in the above-mentioned poverty level group. The perception of the services of public sector

banks by discrimination is essential to discover certain policy consequences with the aid of two discriminant analyses. The average differences, their statistical importance and the discriminating power were first calculated. The results shown in Table 3 below:

Table 3: Mean difference and discriminant power for perception about the services of the public sector bank account

Perception about the services of the public sectorbank account	Mean Score		Mean Difference	't' Statistics	Wilk's Lambda
	Below poverty level	Above poverty level			
Account Opening Procedures	3.9915	3.9347	0.0568	0.9476	0.9993
Deposit of Money	3.9943	3.9598	0.0345	0.5566	0.9998
Availing Loans	4.1740	4.0988	0.0751	1.1815	0.9989
Safe Deposit Locker	3.9618	4.0921	-0.1303	-2.2111*	0.9963
Fund Transfer/EFT/ECS	4.0721	4.0854	-0.0133	-0.2043	1.0000
Mutual Fund	3.7397	4.0469	-0.3072	-4.4939**	0.9847
Insurance	3.3112	3.3434	-0.0322	-0.4147	0.9999
Project Management	3.6846	3.7119	-0.0273	-0.4094	0.9999
Consultancy	3.8824	3.6724	0.1921	2.9658**	0.9891
Micro Finance	4.1429	4.1227	0.1176	2.1284*	0.9972
Social Benefit Payments handling	3.4200	3.3415	0.2531	3.4781**	0.9891
EBT	3.5864	3.5164	0.0545	1.0251	0.9562

* Significant at 5 per cent level ** Significant at 1 per cent level

There is a statistically significant mean difference in the case of 'safety deposit locker, mutual funds, consultancy works, micro finance facilities and social benefit payments handlings.' In "mutual funds, social benefit payments handling and consultancy work" the greater average disparities are observed. As their average difference is -0.3072, 0.2531 and 0.1921. In "Micro finance, safety deposit, consultancy,

social benefit payment handlings and mutual funds," their Wilks lambda amounts to 0.9972, 0.9963, 0.9891, 0.9891 and 0.9847 correspondingly, the highest discriminating power was seen. The important perception of public sector bank services was taken into consideration in order to estimate two group discriminant analyses. The unstandardized method for estimating the function was followed. The estimated role is,

$$Z = -0.2190 - 0.100 \ X_1 - 0.491 \ X_2 + 0.359 \ X_3 + 0.406 \ X_4 + 0.502 \ X_5$$

And even if experiments are not feasible, enable hypothesis testing. As a consequence, these techniques in the social and behavioural sciences have grown widespread (e.g., MacCallum& Austin, 2000).

The proportional contribution of perception on the total discriminatory score (TDS) of the services of the public sector banks is calculated from the product of discriminant co-factor and the mean differences of perception of the services of the public sector banks account.

4.4 Correlations between Independent and Dependent Variables

Table 4: Correlation between Customizing offerings and Financial Inclusion

		Financial Inclusion	Customizing offerings
Financial Inclusion	**Pearson Correlation**	1	
	Sig. (2-tailed)		
	N	200	
Customizing offerings	**Pearson Correlation**	-.684**	1
	Sig. (2-tailed)	.001	
	N	200	200

The correlations between Customizing Offers (IV) and Financial Inclusion (DV) were identified in this research at significant 0.001 levels at -0.684 (Négative). Therefore, a rise or a reduction in the independent variable leads in a slightly 10% increase or decrease, in the opposite direction, of the dependent variable (FI). Thus, the connection, while the two variables are linked, is extremely negative. Strengthening anti-cash laundering will also reduce financial inclusion.

Table 5: Correlation Between Developing innovative channel strategies and financial Inclusion

		Financial Inclusion	Developing innovative channel strategies
Financial Inclusion	**Pearson Correlation**	1	
	Sig. (2-tailed)		
	N	200	
Developing innovative channel strategies	**Pearson Correlation**	.582**	1
	Sig. (2-tailed)	.007	
	N	200	200
**. Correlation is significant at the 0.01 level (2-tailed).			

The correlation of 0.01 significant levels between the development of innovative channel strategies (IV) and financial inclusion (DV) has shown PPMC as 0.582 (positive). Thus, two variables - Developing innovative channel strategies (IV) and FI (DV) are moving in the same direction, with the development of innovative channel strategies (IV) also rising to a 57.9 percent rate of financial inclusion. The same goes for any reduction.

Table 6: Correlation between Employing creative risk mitigation and credit profiling techniques and financial Inclusion

		Financial Inclusion	Using risk mitigation and credit profiling methods that are innovative
Financial Inclusion	**Pearson Correlation**	1	
	Sig. (2-tailed)		
	N	200	
Employing creative risk mitigation and credit profiling techniques	**Pearson Correlation**	-.301	1
	Sig. (2-tailed)	.182	
	N	200	200

The correlation between innovative risk reduction methods (IV) and the degree of financial inclusion (DV) at 0.01 revealed that PPMC is 0.301. (Negative). The two variability-risks on the innovative channels (IV) and FI (DV) thus proceed in the different direction such that the use of creative risk mitigation and credit profiling methods (IV) leads to a reduction in financial inclusion (DV).

5.   CONCLUSION

In this article, Awareness of bank goods and services, use of banking products and services, problems in the use of banking services, and significant financial inclusion variables were the elements that explained financial inclusion, which are included in the research. The survey and analysis showed that, although respondents were aware of traditional products and services, they were little familiar with contemporary banking services and products, especially digital banking services, which in the next few days will be the main doorway to financial inclusion. Policymakers and regulators will modify financial integration strategies without delay when they realize that financial inclusion is sensitive to the conditions. The study of the development of financial inclusion has significant importance for itself, particularly for its sustainability. In general, the researchers discovered that users using innovative supply channels in the conduct of transactions were expected and may mainly be related to their perspective on the innovative channels. However, the research found that if strict measures such as improving dependability, increase customers' trust, regulation of fees and commissions would be introduced, it would lead to more beneficiaries being benefited by financial services. It is thus increasingly important for these studies in future to assess the effect on financial inclusion of these efforts as well as the availability of data that may be regarded as an extra dimension in terms of financial inclusion measurement.

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