Financial Inclusion Drivers

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Usage, digitalization, and FinTech emerged as significant drivers of financial inclusion (FI). Drivers of FI, viz., the usage indicator, digitalization, and FinTech, are positively associated with financial inclusion and with the mediation of financial literacy, and they positively influence sustainable growth. Sustainable growth has been measured through customers' perceptions regarding the success of FI through the achievement of selected SDGs. Further, there is also a positive relation between financial initiatives and sustainable growth.

financial inclusion financial literacy financial policy

1. Introduction

Across the globe, there is an increased emphasis on FI, especially in emerging economies, with the motive to enhance economic growth and decrease poverty [1]. However, there are widespread disparities existing worldwide with regard to access to financial services [2]. Many researchers have also highlighted how financial exclusion could hinder people from leading a normal life. According to Carbo Gardener and Molyneux [3], financial access has a robust causal association with social exclusion. Claessens [4] backed this viewpoint on social exclusion. Further, Basu and Srivastava [5] found that 70% of rural marginal/farmers lacked access to bank accounts and 87% lacked access to loans. This is prevailing despite researchers' consensus that financial inclusiveness is a basic pillar of sustainable growth. To tackle the disparity of the reach of financial services to weaker sections and unbanked areas and sectors, many countries are focusing on microfinance agencies [6]. Owing to the deficient infrastructure and poor economic conditions, the rural poor in developing economies end up having lower access to financial services [7]. Bhanot et al. [8] highlighted region-wise disparity and pointed to the low level of FI in the northeast region of India. They pointed at the vital role that could be played by self-help groups (SHGs) and education to improve inclusion. As suggested by Gwalani and Parkhi [9], due to diversity and prevalent diversification, there is a need in India for a more innovative and developed model for growth. Sharma [10] indicated bank branch penetration, availability, and the affordability of financial/banking services as the main dimensions of FI. Liu and Walheer [11] stress the importance of catching-up effects for countries with lower levels of FI. The researchers also claim that governments have improved the climate for FI in the majority of countries. Despite this, the magnitude is relatively smaller; hence, more efforts are needed. Hence, a sustainable development goal (SDGs) has been introduced to achieve financial inclusiveness and sustainable growth in society.

According to a number of studies, poverty and a lack of knowledge about financial services have been shown as the major barriers to formal financial services access. Financial literacy is the possession of knowledge of fundamental financial concepts to manage financial resources [12][13]. Financial literacy assists in the acquisition of skills essential for financial efficiency. However, it is financial knowledge, along with financial competencies, which will help to provide not only the “ability to act” but also an “opportunity to act”, Huang et al. [14]. There is a need to examine how financial literacy can be related to achieving FI and sustainable growth. Many financial initiatives and policy change programs were undertaken in India to enhance FI and the economy’s growth. In 2014, the government of India commenced Pradhan Mantri Jan Dhan Yojana (PMJDY) for attaining effective FI. As indicated by Poonam and Chaudhry [15], the attainment of FI has improved in many states. Despite this, the country’s large populace is still excluded from the formal financial system [16]. Thus, in view of this, it is important to gauge the perception of bank customers to analyze how they relate the success of these initiatives and policies and associate it with sustainable growth.

Thus, a research is figuring out how FI is linked with sustainable growth, which is a crucial question demanding the attention of researchers. A few researchers investigating the relationship have suggested a strong association between financial development and economic growth [17]. Researchers such as Klapper et al. [18] indicate that FI enhances accessibility to credit, encourages investment facilitation along with the entry of new firms and thus improves economic growth. In the long run, FI could generate employment opportunities and ensure economic and financial stability [19]. Wang and Guan [20] highlighted the need for a sound financial system and considered financial literacy and communication technology as important determinants of FI. Greater FI may help to promote inclusive and sustainable economic development, which may result in poverty alleviation along with economic and social growth of the economy [21].

The current FI argument is based on the belief that inclusive financial institutions help people escape poverty by stimulating economic development in their societies [22]. Therefore, to overcome the issue of poverty, the Indian government, with the support of the reserve bank of India, prepared the National Financial Inclusion Strategy (NFIS). The Pradhan Mantri Jan Dhan Yojna (PMJDY) plan was also propelled in 2014 to empower the under-banked/unbanked people [23]. The United Nations sustainable development goals (SDGs) indicate FI as a crucial facilitator for sustainable growth. The United Nations SDGs policy has 17 significant objectives. SDGs 1, 2, 5, 8, and 9 are directly related to FI. SDG-1 stresses that the more inclusive a country’s financial institutions are, the more capable its poorer portions will be in achieving their economic aspirations, such as establishing new enterprises and increasing their children’s non-cognitive and cognitive development [24]. SDG-2 indicates that financially included farmers can make more investments to give higher yields and better food security. FI assists in providing them with insurance to defend their assets from external shocks. SDG-5 covers gender equality, and it is also entwined with FI, as it will result in women’s social-economic development. This will reduce their risk of exploitation in the informal sector and enable them to engage in productive economic activities. With financial constraints and the inability to keep collateral, women often cannot procure loans [25]; and FI will assist in potential financial development possibilities [26]. This will improve household well-being and enable them to invest in the health and education of their kids, too [27].

SDG-8 promotes long-term, inclusive, and sustainable economic development; full and productive employment; and decent work for all people, regardless of their background. Therefore, the formal financial institutions around the world are taking many significant steps to provide full finance to the needy, small entrepreneurs and those unbanked. Microfinance institutions (MFIs) have been set up and helped by many development agencies all over the world so that these customers who are not banked can get financial help [28]. MFIs have contributed significantly to the development of a self-sustaining financial system for the poor and increased entrepreneurial talent [29] and socio-economic development [30][31][32][33][34][35]. SDG-8 focuses on fostering sustainable economic growth and full and productive employment, and SDG-9 focuses on supporting innovation and sustainable industrialization.

2. Drivers of FI

2.1. Usage

Swamy [36] applauded the FI efforts of India’s government, especially from 1991 to 2005, to make banks reach out to rural areas. Bassant [37] highlighted that for achieving growth with equality, commercial banks must opt for cost-effective technology, such as zero-balance bank accounts, point of sale, mobile banking, and ATMs. Consequently, Camara and Tuesta [38] covered three dimensions of FI: usage, access, and barriers. Usage covers having a financial product, a savings account, and a loan. Access covered the approachability of ATMs, the no. of bank branches, and financial products and services. Barriers included affordability, documentation, distance, and trust. Gine and Townsend [39] revealed a positive linkage between economic development and geographic outreach. Beck et al. [40] considered outreach through access and usage dimensions, and they concluded that usage plays the most prominent role and enables customers to facilitate payments through a debit card and through a savings account, and it allows for asset purchasing, owning a home, educating children, and also to maintain reserves for retirement. Allen et al. [41] cogitate FI through the usage of formal deposit accounts. A stream of thought has focused on the usage of and access to formal financial services [42][43][44]. In light of these, it is pertinent to consider usage in the study.

2.2. Digitalization

The introduction of information and communication technologies (ICTs) and m-banking has given a new face to digitalization [45][46]. Similarly, Demombynes and Thegeya [47] concluded that m-banking with the latest financial services helped transform the lives of the Kenyan population. Many countries have initiated digitalization through ICTs to provide fast, cheap, and accessible financial services. There are many examples of countries using ICT as a medium like mobile money: CELPAY in Zambia; M-PESA in Kenya; and WIZZIT in South Africa. In India, researchers have the facility of cash transfer through (UIADI) Aadhar and the Unified Payments Interface (UPI). Thus, it is evident that digitalization is an essential driver of FI. GPFI [48] reported that digitalization encourages the user to access digital services and financial products efficiently. The ease of access through digitalization will remove the barriers to FI. Ghosh [49] has reaffirmed that the (Adhar) biometric identification system, with its linkage to bank accounts and other financial services, has a positive influence on FI.

Similarly, Onaolapo [50] suggested that FI can be delivered smoothly in the country through information and communication technology (ICT). Thus, the literature indicates that digitalization is playing an essential role in establishing a financial network in society. Financial technology, including digital payments and mobile money accounts, has helped boost FI [51][52]. Therefore, researchers have taken digitalization as one of the drivers of FI.

2.3. FinTech

Financial Technology (FinTech) is the new technology to improve and automate the delivery and use of financial services. The first wave of FinTech ushered in innovation across all phases of the customer life cycle; however, the reach was limited to the affluent sections of society. Thus, it becomes evident that without considering FinTech as a driver of FI, the research may not be complete. Point-of-sale devices and networks communicate between the post office agent, retail agent, and financial service provider. Fintech, along with fund transfer and the payment of bills, also facilitates online trading and mutual fund investment [53]. Though massive efforts are being taken to push digital payments, the picture is rather gloomy as only 2% of merchants enabled point-of-sale-based cashless payments [54]. Thus, as technology changes very fast, it was thought to understand from the customer's perspective how relevant FinTech was in inducing a change in FI. As the target population approached a rural segment too, it was pertinent to include their opinion and draw a unified perception of urban and rural customers.

Moreover, the focus of FinTech is changing from facilitating e-payments or transactions to building a relationship. Based on these views, in the current study, it was considered a separate driver of FI and digitalization was taken to have customers' perceptions regarding digital financial services. Kass-Hanna et al. [55] suggest that national FI strategies continue to lean toward digital finance with the FinTech movement.

3. Financial Literacy

Financial literacy (FL) enables financial planning and also assists in making effective financial decisions [56]. In view of Lusardi and Mitchell [57], financially sound people were more effective in financial planning and debt management. Lusardi et al. [12] opined that financially literate individuals have better knowledge about how to generate, spend, invest, and save money. Similarly, Grohmann et al. [58] related the expansion of bank branches in rural and urban areas to be associated with improved financial literacy and enhanced FI. Researchers across the globe believe that FI can be achieved through financial competencies by improving financial literacy. However, Atkinson and Messy [59] considered a low level of financial skill and knowledge as the major reason for lower levels of FI in any economy. They recommended that policymakers induce banks and financial institutions to conduct training programs to improve the FI level. Ramakrishna and Trivedi [60] recognized that technology positively influences FI. This was also reverberated by Rastogi and Ragabiruntha [61]. Innovation and technology through literacy can intensify FI, because it can circumvent prevailing structural and infrastructural challenges and directly reach the needy ones [62]. Thus, that is the reason researchers have taken financial literacy as a mediating variable. Okello et al. [63] have also used financial literacy as a mediator between social networks and FI. Both the direct and indirect effects of FL with FI emerge as significant, which indicates the important role played by FL in FI. Taking this as a pointer for future research, researchers want to examine the mediation effect of FL between the drivers and sustainable growth. The drivers of FI with the mediation of FL should lead to sustainable growth.

4. Financial Initiatives

The financial initiatives may play a critical part in the development of FI by allowing the nation to be financially accessible to all people. In the study, financial schemes and policies have been examined to provide enabling environments that are financially well sound. The literature related with financial policy and financial schemes has been presented.

4.1. Financial Schemes

Many national and international institutions are leading major policy initiatives and schemes to bridge the gap between FI. Around 35 countries have adopted a National Financial Inclusion Strategy (NFIS) to accelerate sustainable growth. Some countries have modified and restructured their NFIS [64]. In India, major steps have been initiated by RBI in Basil-III norms. Along with increased regulations and supervision of financial institutions, there is a need for the expansion of bank branches in unbanked/rural areas. Policy changes are being introduced for safer banking, risk management, and for accelerating liquidity [65].

Moreover, Italy is an example where poverty levels are reduced through various schemes [66]. Other schemes related with easy access to financial services and zero-balance savings accounts offered by the Nepal government to female heads of households led to around 84% of women opening their B/As [67]. Similarly, the Indian government has initiated several programs like Pradhan Mantri Jan Dhan Yojna. Therefore, researchers have analyzed whether financial initiatives taken in India have been helpful in achieving FI and sustainable growth.

Kaboski and Townsend [68] indicated that the Thailand government has taken the initiative to provide micro-credit loans to rural areas by introducing the “Village Fund Program”. The Reserve Bank of India, in 2006, permitted banks to use intermediaries as business facilitators (BFs) or business correspondents (BCs) for delivering financial/banking services. Joshi [69] has highlighted a significant role played by financial intermediaries in FI. As indicated by Dugyala [70], reinforcing the initiatives of financial intermediaries such as microfinance institutions and banks is needed. RBI initiated to encourage savings for the Chiller bank program in 2015 to encourage children to open and operate savings bank accounts independently.

4.2. Financial Policy

FI has been widely accepted as a goal for the financial sector and economic growth during the last several years by policymakers throughout the world. Cohen [71] opined that government and financial institutions should make effective policies, especially on FL in rural and urban areas, for financial intermediaries’ involvement. The financial intermediaries and banking channels can deliver financial literacy programs effectively [72]. The Reserve Bank of India focuses on unique programs and policies to successfully achieve FI in the country. It employs a bank-led approach, such as Basic Savings Bank Deposits (BDSD) accounts for the economically disadvantaged, simple Know Your Client (KYC) norms, and directions to open more bank branches in rural areas. The common service centers (CSC) have been set up in rural areas, providing electronic commercial services and e-governance to rural residents. Therefore, financial policies play an essential role in attaining FI and fostering sustainable growth.

5. Sustainable Growth

The basic purpose of any economy is to have sustainable growth, which offers basic financial services to unbanked and rural areas and reduces disparities. SDG-1 focuses on eliminating extreme poverty. It also states that the poor and the vulnerable should have equal rights to access financial services, including microfinance. Similarly, SDG-5 is about promoting gender equality. Access to financial services, such as credit, helps women assert their economic power [25]. researchers would also like to refer to SDG-9, promoting innovation and sustainable industrialization. Sustainable growth advocates equitable opportunities for people during economic growth. It ensures benefits for all income groups.

Examining the researchers' perspectives on economic development in sustainable and inclusive growth is necessary. McKinnon and Shaw [73] concluded that expanding bank branches in rural/urban areas positively affects economic growth. Levine [74] and Beck et al. [40] also found a well-established financial system to be positively linked with the economy's growth. Khan [75] supported that a well-defined financial system encourages investment and promotes growth. Indeed, Bertram et al. [76] concluded that FI served as a prerequisite for inclusive economic development in Nigeria. Hariharan and Marktanner [77] supported the impact of FI economic growth and development as they observed a high positive correlation between FI and total factor productivity (TFP), which translates to growth. The same thoughts were reverberated by Kim et al. [78] in their research of 55 member countries of the Organization of Islamic Cooperation (OIC), where a positive relation of FI was observed with economic growth. Park and Mercado [79] found FI to be positively correlated with per capita income. Ibor et al. [80], in a study on Bangladesh, concluded that financial inclusiveness has helped in alleviating poverty and an improvement of living standards.

However, Zins and Weill [81] used a probit model on 37 African countries and found that educated, richer, and older individuals are more financially included. Access to formal financial services in an economy provide new and equal opportunity for investment for individuals/businessmen [82]. Increased FI improved indicators such as income, the standard of living, health, education, and poverty reduction [83]. Thus, it becomes essential to find out how FI drivers and financial initiatives have helped in achieving sustainable growth. Sustainable growth has been measured by the customer's perception regarding how FI helps in achieving dimensions covering aspects from reducing inequalities and enhancing health to fostering growth and innovation through SDGs 1, 3, 4, 5, 8, 9, 10, 11, and 17. SDGs were adopted in 2015 by the United Nations (UN) with the aim of ending human poverty in all of its forms in the world. Access to formal financing assists in achieving broader goals, such as ending poverty (SDG-1), improving health and education (SDGs 3 and 4), reducing gender inequality (SDG-5); improving entrepreneurial activity and innovation and growth (SDGs 8 and 9) [84][85][86]. SDG-10 is about reducing inequality SDG-11; making cities and other places where people live safe, resilient, and sustainable is related to SDG-17, i.e., reinvigorating the global cooperation for sustainable development by strengthening the implementation mechanisms. The study will also be able to focus on which SDG has a higher loading in sustainable growth as per the customer's perception. There are SLR studies covering FI and SDGs; however, such a study covering a survey-based analysis has not been undertaken.

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