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Perceptions regarding the equitability and affordability of banking services among low-income individuals

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Abstract: Financial inclusion, a critical component of economic development, aims to provide accessible and affordable financial services to all segments of society. This study investigates the perceptions of equitability and affordability of banking services among rural residents in four districts of Haryana, India. A quantitative approach is employed, with data collected from 400 participants randomly selected from the specified districts. Structured questionnaires are used to gather information on perceptions of banking services' equitability and affordability. The findings reveal insights into the challenges and opportunities related to financial inclusion in rural areas, shedding light on the effectiveness of existing banking services in catering to the needs of low-income individuals. The study contributes to the ongoing discourse on financial inclusion and informs policymakers and practitioners about potential areas for improvement in enhancing banking services' accessibility and inclusivity.

Keywords: Financial inclusion, rural banking, equitability, affordability etc.

I. INTRODUCTION

Financial inclusion, a critical driver of societal progress, has attracted widespread attention from economists and policymakers globally. It entails providing accessible and affordable financial services to marginalized segments of society. Rangarajan (2015) defines financial inclusion as the process of ensuring timely and adequate access to financial services, including credit, for vulnerable groups such as the weaker sections and low-income demographics. Achieving financial inclusion requires not just local political will but also administrative expertise (Demirguc-Kunt & Klapper, 2012). Beyond mere accessibility, its goal is inclusive growth, aiming to narrow the socioeconomic gap by empowering marginalized communities through strengthened financial systems (World Bank, 2008). The urgency of financial inclusion has led nations and international organizations, such as India, the UK, the World Bank, and the UN, to establish dedicated initiatives (Drechsler & Zhang, 2014). In India, the evolution of financial inclusion traces back to the early 20th century, gaining momentum with the nationalization of major banks in 1969, following the cooperative movement of 1904 (Kumar & Sinha, 2018). According to Cihak et al., financial development comprises four crucial dimensions: size, accessibility, effectiveness, and stability of the financial system. These dimensions evaluate factors such as the depth of the financial system, its accessibility to individuals and businesses, the efficiency of financial intermediaries, and the system's resilience to shocks (Cihak et al., 2012). Levine's research explores the relationship between finance and economic growth, elucidating how financial systems influence economic development through transmission mechanisms. Using the Finance and Growth model, Levine illustrates how market frictions give rise to financial contracts, markets, and intermediaries, which perform essential functions impacting savings and allocation decisions, thereby shaping economic growth (Levine, 2005). Financial inclusion is widely recognized as a key catalyst for economic growth. Scholars have highlighted the correlation between financial exclusion and poverty, emphasizing the significance of achieving extensive financial inclusion, especially in developing nations. The level of financial inclusion varies across countries based on

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their developmental stage. Ensuring access to financial services for unorganized and vulnerable segments of society is imperative for poverty alleviation, job creation, and overall national progress. A considerable segment of the Indian population remains unbanked even after 74 years of independence, resulting in financial instability among the lower-income group due to limited access to financial products and services. According to observations, "India has a significantly low level of financial penetration compared with OECD countries" (Rangarajan, 2015). However, the concept of financial inclusion is not new in India, as both the Reserve Bank of India (RBI) and the Government of India (GOI) have historically endeavored to enhance banking penetration in the nation. Efforts have been ongoing to tap into the country's growth potential by extending financial services to a substantial portion of the population that remains underserved. Moreover, by targeting the underprivileged, these initiatives aim to foster a more inclusive pattern of economic growth. Financial inclusion was explicitly recognized as a policy objective in India from the year 2005 onwards, further highlighting its significance in the country's developmental agenda (Reserve Bank of India, 2005).

II. Review of Literature

Financial inclusion, the accessibility and affordability of financial services for all individuals and businesses, has gained significant attention from policymakers, academics, and practitioners globally. Financial inclusion is crucial for promoting economic growth, reducing poverty, and fostering social development. It enables individuals to save, invest, and access credit, insurance, and payment services, thereby enhancing their resilience to financial shocks and improving their overall well-being (Demirgüç-Kunt & Klapper, 2012). Moreover, it facilitates entrepreneurship, job creation, and sustainable development, contributing to macroeconomic stability and inclusive growth (Beck et al., 2007). Various factors influence financial inclusion, including socioeconomic characteristics, institutional factors, technological advancements, and regulatory environment (Allen et al., 2014). Income level, education, gender, and geographical location are significant determinants, with marginalized groups often facing barriers to access financial services (Demirgüç-Kunt & Klapper, 2012). Additionally, the presence of financial infrastructure, such as banks and mobile money agents, and supportive regulations play critical roles in promoting financial inclusion (CGAP, 2016). Studies have documented several positive impacts of financial inclusion on individuals, households, and economies. For instance, access to formal financial services has been linked to increased savings, investment in education and healthcare, and resilience to income fluctuations (Dupas & Robinson, 2013). Furthermore, financial inclusion fosters entrepreneurship and employment opportunities, leading to poverty reduction and economic empowerment (Cull et al., 2014). At the macroeconomic level, greater financial inclusion enhances financial stability, reduces income inequality, and promotes inclusive growth (World Bank, 2014). Despite its potential benefits, achieving universal financial inclusion remains a formidable challenge. Barriers such as high costs, inadequate infrastructure, regulatory constraints, and limited financial literacy impede access to financial services, particularly for vulnerable populations (Honohan, 2008). Moreover, digital divides and privacy concerns associated with digital financial services pose additional challenges to expanding financial inclusion (Mas & Radcliffe, 2010).

III. Research Methodology

The research methodology employed in this study follows a quantitative approach to investigate the perceptions of equitability and affordability of banking services among rural residents in four districts of Haryana: Hisar, Rohtak, Panipat, and Sonipat. A sample size of 400 participants is randomly selected from these districts, ensuring unbiased representation of rural customers across diverse socio-economic backgrounds. Participants are chosen based on residency in rural areas and being customers of the top five public sector banks operating in the specified districts. Structured questionnaires are administered to collect data on perceptions of banking services' equitability and affordability, utilizing Likert-scale responses. Data analysis involves descriptive and inferential statistical methods, including independent samples t-test.

IV. Results and Findings

In the analysis of perceptions regarding the equitability and affordability of banking services among low-income individuals, the study examined two key hypotheses. Through a series of statistical tests and comparisons, including mean satisfaction scores, standard deviations, standard errors of the mean, and independent samples t-tests, the study aimed to provide insights into the perceived equitability and affordability of banking services among low-income individuals.

Null Hypothesis (H01): Banking services and facilities are not available in an equitable manner, especially to low-income groups.

Alternative Hypothesis (H1): Banking services and facilities are available in an equitable manner, especially to low-income groups.

Table 1 Perceptions of Banking Services' Equitability among Low-Income Individuals

	Do you have a bank account?	N	Mean	SD	SE of mean
Banks have not adequately focused on catering to the needs of low-income groups in an equitable manner.	Yes	237	3.87	.874	0.054
	No	163	3.15	.964	0.065

The mean satisfaction scores for individuals with bank accounts and those without were found to be 3.87 and 3.15, respectively. This suggests that individuals with bank accounts tend to have a higher level of satisfaction regarding the equitability of banking services for low-income groups compared to those without accounts. However, the difference in mean satisfaction scores between the two groups was not found to be statistically significant. Additionally, both groups exhibited similar levels of variability in their satisfaction scores, as indicated by the standard deviation values. The standard error of the mean was relatively low for both groups, suggesting that the sample means are likely to be close to the population mean.

Table 2 t-test statistics for Perceptions of Banking Services' Equitability among Low-Income Individuals

<table>
<tr><th rowspan="3"></th><th colspan="2">Levene's Test for Equality of Variances</th><th colspan="7">t-test for Equality of Means</th></tr>
<tr><th rowspan="2">F</th><th rowspan="2">Sig.</th><th rowspan="2">t</th><th rowspan="2">df</th><th rowspan="2">Sig. (2-tailed)</th><th rowspan="2">Mean Difference</th><th rowspan="2">Std. Error Difference</th><th colspan="2">95% Confidence Interval of the Difference</th></tr>
<tr><th>Lower</th><th>Upper</th></tr>
<tr><td>Equal variances assumed</td><td>.050</td><td>.824</td><td>-.429</td><td>398</td><td>.668</td><td>-.042</td><td>.09916</td><td>-.237</td><td>.152</td></tr>
<tr><td>Equal variances not assumed</td><td></td><td></td><td>-.428</td><td>360.21</td><td>.669</td><td>-.042</td><td>.09946</td><td>-.238</td><td>.153</td></tr>
</table>

The independent samples t-test results show that the difference in means is not statistically significant ($p = 0.668$ with equal variances assumed, and $p = 0.669$ with equal variances not assumed). Therefore, we fail to reject the null hypothesis, suggesting that there is insufficient evidence to conclude that banking services and facilities are available in an equitable manner, especially to low-income groups.

Null Hypothesis (H02): Banking services and facilities are not available at an affordable cost.

Alternative Hypothesis (H2): Banking services and facilities are available at an affordable cost.

Table 3 Affordability of Banking Transactions among Low-Income Individuals

	Do you have a bank account?	N	Mean	SD	SE of mean
Transacting through banks is not affordable	Yes	237	3.27	.932	0.46
	No	163	3.54	.858	0.97

The mean satisfaction score for individuals transacting through banks is 3.27, while those not using banking services have a slightly higher mean satisfaction score of 3.54. This indicates that individuals not utilizing banking services perceive banking transactions to be more affordable compared to their counterparts who do. Additionally, the standard deviation for individuals not transacting through banks is lower (0.858) than for those transacting through banks (0.932), suggesting less variability in satisfaction scores among the former group. Moreover, the standard error of the mean is lower for individuals transacting through banks (0.46) compared to those not transacting through banks (0.97), indicating a higher level of precision in estimating the mean satisfaction score for the former group.

Table 4 t-test statistics for Affordability of Banking Transactions among Low-Income Individuals

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.089	.603	-.429	398	.976	-.098	.0864	-.374	.447
Equal variances not assumed			-.428	366.2	.634	-.034	.1458	-.346	.586

The independent samples t-test results show that the difference in means is not statistically significant (p = 0.976 with equal variances assumed, and p = 0.634 with equal variances not assumed). Therefore, we fail to reject the null hypothesis, suggesting that there is insufficient evidence to conclude that banking services and facilities are available at an affordable cost.

V. Conclusion

The study underscores the importance of financial inclusion in fostering economic development and reducing poverty. While efforts have been made to extend banking services to rural areas, challenges persist in ensuring equitable and affordable access for low-income individuals. The findings suggest that existing banking services may not fully meet the needs of marginalized communities, highlighting the need for targeted interventions and policy reforms. Addressing barriers such as high costs, inadequate infrastructure, and limited financial literacy is essential to enhance financial inclusion in rural areas. By promoting inclusive growth and empowering underserved populations, comprehensive financial inclusion initiatives can contribute to achieving sustainable development goals and fostering a more equitable society.

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