

# The Challenges In The Path Of Financial Inclusion In Rural Areas: A Case Study On Sonipat, Haryana

Alka Chaudhary<sup>1</sup>, Shweta Anand<sup>2</sup>

Research Scholar<sup>1</sup>, Professor<sup>2</sup>

School of Management

Gautam Buddha University

Greater Noida, India

## Abstract

The current study was conducted to identify the challenges associated with financial inclusion in Sonipat Haryana. Financial inclusion is a major problem associated with economic growth and rural development in India. The researcher has collected primary data for the purpose of this study. The data has been collected using semi-structured questionnaires. The researcher has explored the perception of respondents with respect to the challenges faced by them when it comes to financial inclusion. High maintenance charges like cost of subscription and transaction fees are the major reason why rural people are devoid of financial inclusion. The privacy issue is also a challenge because they feel that it is not private and confidential. A major challenge in the path of successful financial inclusion is the complexity of documents. The people in rural areas are afraid of documentation and they are less confident that they can complete all the formalities. These are the major challenges clubbed with low internet connection as a major force behind financial exclusion.

Keywords: Financial Inclusion, Technology, Rural India, Financial Exclusion.

## 1.1 Introduction

Financial inclusion contributes to economic development of a country. The modern era is driven by the use of independent power and economic power, making it compulsory for any state to provide common conditions for homes, individuals and private institutions including the provision of banking services (Verma & Singh, 2014). Development and expansion projects are promoted by the Bank's strong branches network and easy access to the Bank's facilities. A strong and resilient financial system is the foundation for economic development and growth. It will be easier to achieve the National goal by ensuring that the financial system is diverse, robust and efficient (Aduda & Kalunda, 2012). That is why it is important for all countries to have a strong financial system to build a market-driven and competitive economy. One of the most important facilitators of economic growth and development is financial inclusion.

Financial inclusion is defined as the acquisition of alternative financial services to the poor at an affordable cost. It also means the delivery of certain banking services at an affordable cost (Tsurkan, et al., 2017). Investment is also a major theme for the United Nations and defines the main purpose of inclusive financial services such as access to various types of financial services such as debt, savings, insurance, banking services and remittances to all businesses and bank facilities at fair value. The concept of investment is traced back to 1904 because a co-operative organization took place in India in that year (Alfaro, et al., 2004). However, the organization only acquired Momentum in 1969 when 14 major commercial banks were merged and at the same time introduced the Lead Bank system (Agarwalla, et al., 2015). Large branches were opened in large numbers throughout the country and in previously neglected areas.

After these measures from the Reserve Bank of India, there was a large proportion of people from India who were not included in the banking system (Goel & Goel, 2014). As well as that, there was a serious intrusion into financial access that required special attention. Numerous studies were conducted on this subject to understand the reasons for the investment. Studies confirm that the issuance or non-issuance of a banking system has cost 1% of GDP losses in the country (Swamy, 2012). This showed that investment was not only a political requirement but also accompanied by economic growth and development. The magnitude of the problem has been identified by the Reserve Bank of India and banks are just looking at investment as one of the main objectives of monetary policy (Chattopadhyay, 2011).

The positive impact of investment has been widely studied in the past and is considered a global spread (Gwalani & Parkhi, 2014). A major book in the banking sector focuses on the impact of investment. The study was also conducted by the World Bank for rural India and research shows that only 40% of households had bank accounts (Subbiah, 2012). Studies such as this have created the need to take a lesson in identifying the challenges associated with investing in rural India (Dhar, 2013). Hence the current study was conducted to identify the challenges associated with financial inclusion in Sonipat Haryana. To date there has not been a single study conducted in Sonipat as a rural area to understand the challenges associated with financial inclusion.

## 1.2 Problem Statement

Financial inclusion is a major problem associated with economic growth and rural development in India. It has been found that rural people are still lending their land, ornaments, etc. to local lenders to get money (Singh, 2014). This is a very serious problem that has also led to many people committing suicide and other major challenges. People in rural areas do not yet have bank accounts and have no understanding of banking and financial systems. These are some of the key issues that make investing difficult in the country.

Most people in rural areas still do not have bank accounts and most of them are reluctant even if they are provided with banking and financial services (Allen, et al., 2012). Some researchers have conducted research to identify issues related to investment in rural India. However, there is shortage of research that has identified the challenges associated with investing in rural India (Chandran, 2013). That is why it is so important to do research that can identify the social, economic, technological and psychological challenges associated with investing in rural India. This study will contribute to the body of knowledge related to the challenges of investing in Sonipat Haryana.

### 1.3 Research Questions

Following are the research questions that will be answered by the researcher at the end of the study:

- What are the challenges that are faced by people in rural areas in using banking services?
- What are the factors that act as a hurdle in the path of financial inclusion in rural areas?

### 1.4 Research Aims and Objectives

The aim of this research is to understand the social, economic, technological and psychological challenges related to financial inclusion in rural areas in India. On the basis of this aim, following are the objectives of the research:

- To identify the challenges that are faced by people in rural areas in using banking services.
- To identify the factors that act as a hurdle in the path of financial inclusion in rural areas.

### 1.5 Scope of research

This research is entirely based on Sonipat district of Haryana. Sonipat is a rural area that has a significant number of people living below the poverty line. The result of this study will help the policy makers in understanding the challenges related to financial inclusion in Sonipat. However, the result is specific to Sonipat but it can be implied in other rural areas as well. The result can also be used by researchers in conducting the similar study in different rural areas.

## 2. Review of Literature

To understand the gravity of problems related to financial inclusion, it is very important to understand the actual meaning of financial inclusion. Financial exclusion is defined as the failure of certain sections of the public to afford low, reasonable, secure and fair costs and products from major suppliers (Nayak, 2005). Hence the importance of financial inclusion lies in ensuring that a variety of appropriate financial services are available to everyone. In addition to the standard method of financial intervention, financial investments include a basic account of earnings, transfers, savings pattern, access to personal and productive purposes and small loans (Mukhopadhyay & Rath, 2011).

It is identified the main reasons for the disbursement of funds on the side of needs are low income, ignorance, illiteracy and poverty (Boubakri, et al., 2013). From the supply side, including branch time, distance from branch, complex procedures and documents, staff conditions, language, etc. As a result of all these processes, people in rural areas find it easier to borrow money from informal credit sources (Allen, et al., 2007). However, many studies have already revealed that such resources have led to higher costs, increased exposure to regulated and non-compliant suppliers and living standards compromises. This is the main reason why researchers insist that investing means not only opening a savings bank account but also creating awareness about financial education, product, services and advice on financial matters. It is important for the whole community to ensure easy access to public goods and that should aim to provide services to all people (An & Cheung, 2010).

It has been shown in a study that if poor people are connected to the country's formal financial system it will also improve their growth. Even with the growth of the world, their growth will not be possible because they will not be able to meet basic needs (Berduygina, et al., 2017). The researcher found that a lack of financial information had led to rural people being lured into the saving scheme. Many people who do not have the understanding to invest their hard-earned money risk their children's future. This is the main reason why policymakers focus on investing to grow the country (Khaki & Sangmi, 2012).

A report by the Rangarajan Committee (2008) defines financial inclusion as "a process to ensure the availability of financial services and adequate and sufficient time when at-risk groups such as fragile and low-income groups are required". This means that investment is a major concern for the provision of affordable banking services to both the low-income and the disadvantaged group (Bhanot, et al., 2012).

Most of the people in rural areas still do not have bank accounts and many of them are reluctant even if they are offered banking and financial services (Chakravarty & Pal, 2013). Certain researchers have conducted research to identify the hurdles associated with financial inclusion in rural India. However, there is a lack of research that has identified the challenges associated with financial inclusion in rural areas in India (Mohan, 2014). This is why it is very important to undertake a research that can identify the social, economic, technological and psychological challenges related to financial inclusion in rural areas in India.

Financial exclusion restricts people from participating in different economic activities and it is also found to be related to social exclusion. Along with these reasons, many researchers have also pointed out that economic policies, land reforms, competition policy and financial regulation are also the underlying reasons behind financial exclusion (Madurai, 2011).

It is mentioned that the financial inclusion goals get negatively affected from both supply as well as demand side (Das, 2013). The barriers from demand side include lack of awareness, low literacy levels, a regular income, lack of understanding on knowledge of financial services and products, lack of trust in formal banking institutions, business models, cultural obstacles and the focus of bankers on the population that is economically active (Ghatak, 2013).

### 3 Research Methodology

This is the most important section of the paper as it provides justification on the use of data collection and data analysis tools along with research strategy and methods.

#### Data collection

The researcher has collected primary data for the purpose of this study. The data has been collected using semi-structured questionnaires. Most of the questions were designed on a five-point likert scale. All the questions in the questionnaire were closed ended. The questionnaire was sent using google forms link and face-to-face mode.

The sample universe for the research was Sonapat, Haryana and from that sample size was determined. The sample size was 50 respondents. The sample size was determined using a convenience sampling method. This further signifies that the researcher has utilised non probability sampling. This means that the probability of a respondent being included in the sample population was not equal. This denotes that the researcher has decided the sample on the basis of easy accessibility to save the time and resources. The data collected by the researcher was quantitative in nature and this is why the tool to analyse the data was quantitative in nature. The researcher used quantitative data analysis tools to analyse the data.

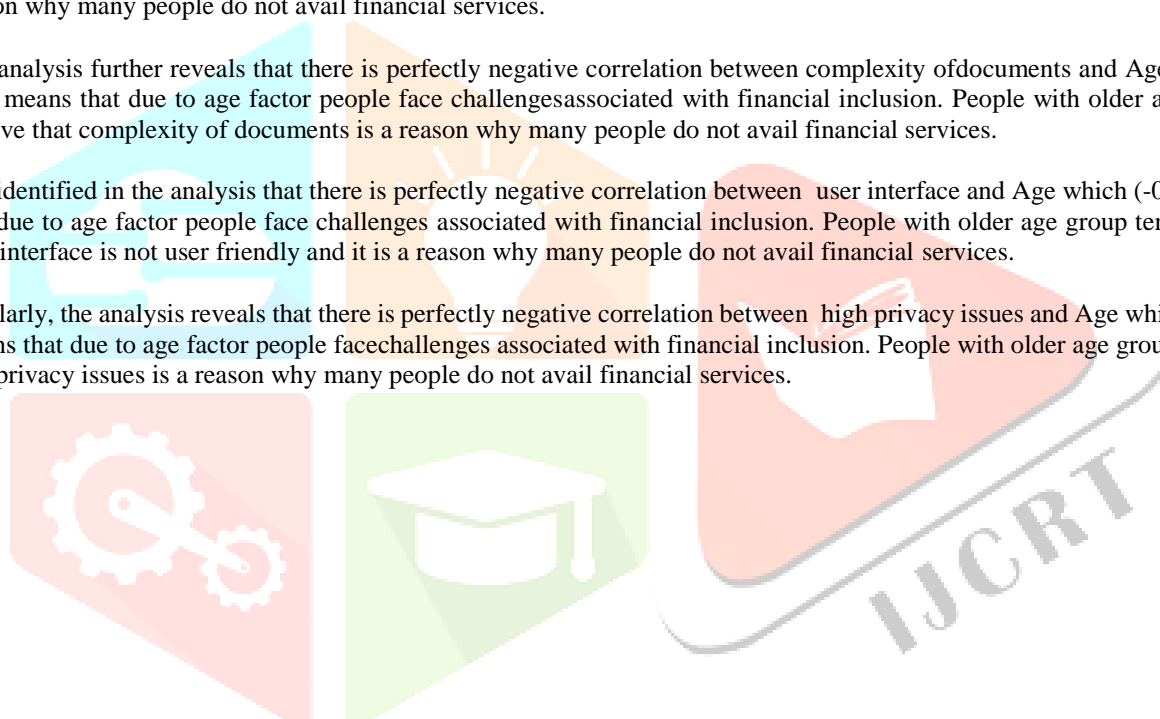
### 4 Findings and Analysis

The Pearson's correlation analysis has been undertaken to identify the challenges. The analysis reveals that there is perfectly negative correlation between high maintenance charges and Age which (-0.63). This means that due to age factor people face challenges associated with financial inclusion. People with older age group tend to believe that higher maintenance charges is a reason why many people do not avail financial services.

The analysis further reveals that there is perfectly negative correlation between complexity of documents and Age which (-0.183). This means that due to age factor people face challenges associated with financial inclusion. People with older age group tend to believe that complexity of documents is a reason why many people do not avail financial services.

It is identified in the analysis that there is perfectly negative correlation between user interface and Age which (-0.81). This means that due to age factor people face challenges associated with financial inclusion. People with older age group tend to believe that user interface is not user friendly and it is a reason why many people do not avail financial services.

Similarly, the analysis reveals that there is perfectly negative correlation between high privacy issues and Age which (-0.063). This means that due to age factor people face challenges associated with financial inclusion. People with older age group tend to believe that privacy issues is a reason why many people do not avail financial services.



## Correlations

Table 1: Correlation Analysis

		Age	Income	High maintenance charges	Complexity Of documents	User interface	Privacy issues
Age	Pearson Correlation	1	.620**	-.063	-.183	-.081	-.063
	Sig. (2-tailed)		.000	.664	.202	.575	.664
	N	50	50	50	50	50	50
Income	Pearson Correlation	.620**	1	-.119	-.231	-.261	-.119
	Sig. (2-tailed)	.000		.408	.106	.067	.408
	N	50	50	50	50	50	50
Highmaintenancechges	Pearson Correlation	-.063	-.119	1	.642**	.755**	1.000**
	Sig. (2-tailed)	.664	.408		.000	.000	.000
	N	50	50	50	50	50	50
complexityofdocumets	Pearson Correlation	-.183	-.231	.642**	1	.737**	.642**
	Sig. (2-tailed)	.202	.106	.000		.000	.000
	N	50	50	50	50	50	50
userinterface	Pearson Correlation	-.081	-.261	.755**	.737**	1	.755**
	Sig. (2-tailed)	.575	.067	.000	.000		.000
	N	50	50	50	50	50	50
privacyissues	Pearson Correlation	-.063	-.119	1.000**	.642**	.755**	1
	Sig. (2-tailed)	.664	.408	.000	.000	.000	
	N	50	50	50	50	50	50

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Friedman's Test was used to analyse mean ranking. The understanding about financial inclusion has been ascertained using this test. The expected value of two nominal variables have been identified using chi-square and it is 0.391. Additionally, the mean ranking for understanding about financial inclusion is 1.47 which denotes that presently the people of Sonipat are do not possess sound understanding of financial inclusion and this is also a major challenge that they face.

Furthermore, the velocity of rural people to switch from traditional services to modern banking services is low. It is denoted in the table that the mean rank for it is 1.53 and this signifies that rural people still prefer traditional banking services. This is yet another major challenge in the path of successful financial inclusion.

**Table 2: Friedman Test**

Test Statistics <sup>a</sup>	
N	50
Chi-Square	0.391
df	1
Asymp. Sig.	0.532

a. Friedman Test

**Table 3: Ranking Means**

Ranks	Mean Rank
Understanding	1.47
velocity	1.53

**Table 4: Descriptive Statistics**

Descriptive Statistics					
	N	Mean	Std. Deviation	Minimum	Maximum
Understanding	50	2.0800	1.22624	1.00	5.00
velocity	50	2.1200	1.15423	1.00	5.00

It is identified from the analysis that the proportion of females was about 40% and 60% participants were males. This signifies that there were 20 female participants and 30 male participants in the study. Most of the respondents of the study belong to the age group 29-39 years which accounts for almost 48%. In addition to that, 37% respondents are in the age group 18-28 years. Another major important finding of the study is that most of the respondents are either in the income group 4,50,000-10,00,000 or less than 2,50,000. The number of participants in the income group 10,00,000 and above was very less. As far as the level of education is considered, most of the respondents are either graduates or postgraduates. The number of people whose education level is below 8th or 12th is almost negligible. The most important finding of this study is that almost 98% respondents had bankaccounts in any of the banks. It is further identified that the most popular type of bankaccount is saving bank account which accounts for almost 92%.

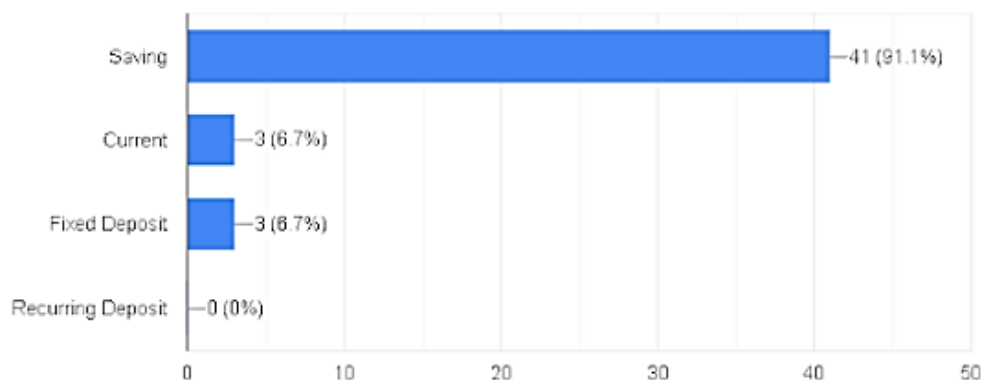


Figure 1: Type of Bank Account

The researcher also focused on understanding the reasons behind financial exclusion and the most significant reason behind financial exclusion is underdeveloped internet facilities in rural areas. This means that many people are not aware about financial inclusion and not a part of this because the internet facilities in rural areas are not strong enough to provide them significant knowledge and inclusion facilities. Another important reason is low financial literacy which means that the people in rural areas are not literate about financial services and products and this is also clubbed with tough documentation. People think that the documentation for banking services is tough and because of that they do not involve in financial inclusion.

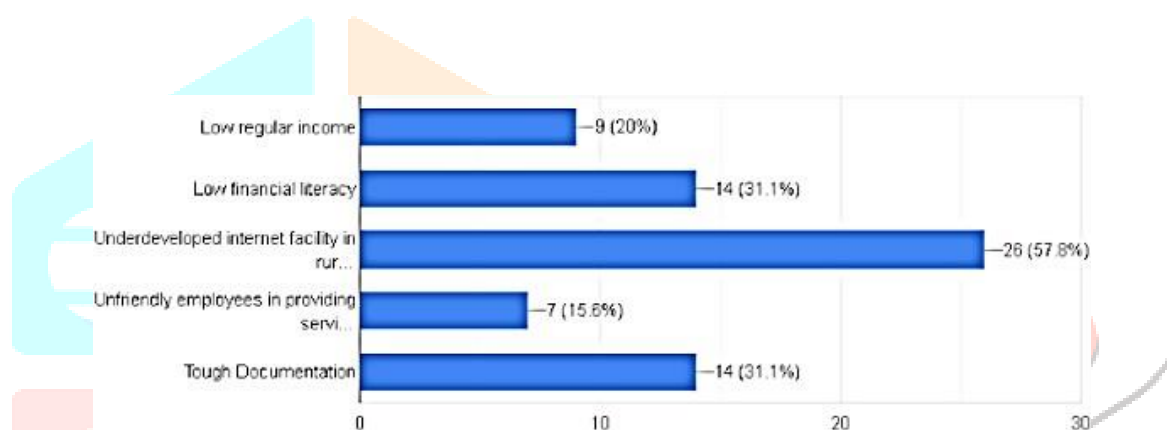


Figure 2: Challenges in financial inclusion

The researcher has also explored the perception of respondents with respect to the challenges faced by them when it comes to financial inclusion. Most of the respondents feel that the high maintenance charges like cost of subscription and transaction fees are the major reason why rural people are devoid of financial inclusion. Another major reason is the privacy issue, people in rural areas feel that financial inclusion might result in stealing their personal information and they also feel that it is not private and confidential. It is identified that a major challenge in the path of successful financial inclusion is the complexity of documents. The people in rural areas are afraid of documentation and they are less confident that they can complete all the formalities.

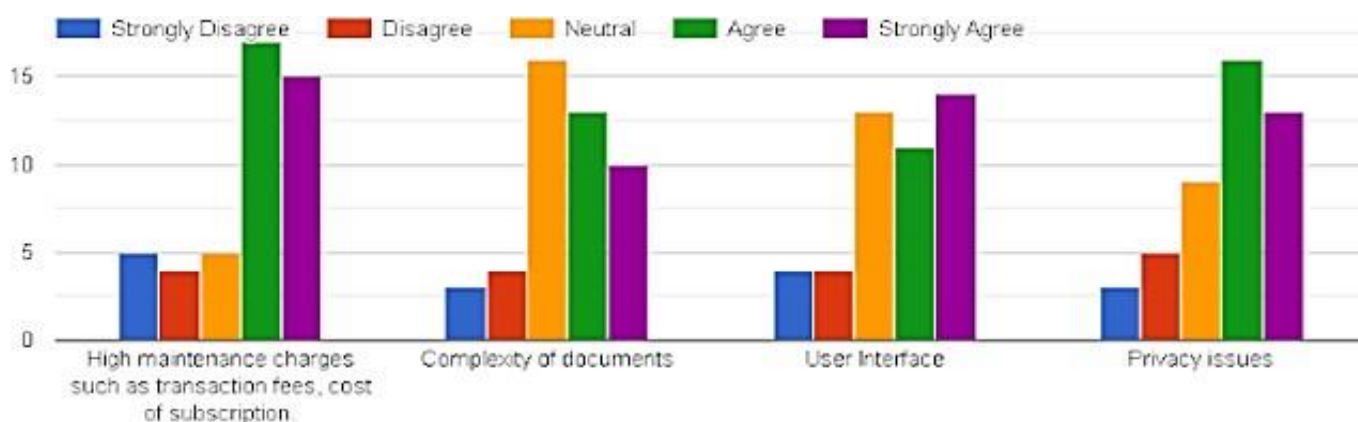


Figure 3: Challenges faced by the respondents

## 5. Findings of the Study

It was identified from the analysis that the proportion of women was about 40% and that the 60% were men. The majority of respondents in the study group were 29-39 years of age with about 48% age. In addition, 37% of respondents are in the 18-28 year range. Another important finding of the study was that the majority of respondents were in the income group of 4,50,000-10,00,000 or less than 2,50,000. The number of participants in the incoming group of 10,00,000 and above was very small. Depending on the level of education considered, most respondents may be graduates or post graduates. The number of people whose education level is less than 8 or 12 is almost negligible. The most important finding in this study was that almost 98% of respondents had bank accounts in any of these banks. It is also pointed out that the most popular type of bank account saves about 92% of the bank account.

However, there are a large number of people who had a neutral understanding of the term. The researcher also focused on understanding the reasons for non-investment and the most important reason for disbursement of funds by underdeveloped internet institutions in rural areas. This means that most people do not know about investment and it is not part of this because internet facilities in rural areas do not have enough power to provide them with important information and investment sites. Another important reason for low financial literacy is that people in rural areas are exempt from financial services and products. People think that banking services documents are complex and therefore do not involve investment. The researcher also assessed respondents' perceptions of the challenges they face when it comes to investing.

The majority of respondents felt that high maintenance costs such as registration and transaction fees were the main reasons why rural people did not have access to finance. Another major reason for the privacy issue is that people in rural areas feel that investing in it can lead to the theft of personal information and that they feel that it is not private and confidential. It was pointed out that the biggest challenge on the path to successful investment is the complexity of documentation. People in rural areas are afraid of the scriptures and are less confident that they can complete all the goals.

## 6. Conclusion

The paper aimed at identifying the challenges in the path of financial inclusion. It is identified that the major challenge associated with financial inclusion in rural areas is the complexity of the documents. However, most of the respondents are educated as they are either graduate or postgraduate. Even though they feel that the documentation is complex. Despite the common perception that the level of education can affect the level of acceptance when it comes to documentation. The level of education in this case is good but the respondents find it challenging to undertake documentation.

There is another major challenge in rural areas with respect to financial inclusion and that is the high maintenance cost. Due to high cost of maintenance, people do not avail financial services. However, most of the respondents belong to the income group 4,50,000-10,00,000

which is fair enough, but they do not like to pay high charges. This is a leading cause of financial exclusion.

There is another critical challenge associated with financial inclusion is lack of internet infrastructure. In rural areas, there are issues related to internet connection. People do not get good connections and because of that they are not able to use technology for financial inclusion. It is widely accepted that the internet is the most important driver of finance but lack of it can lead to financial exclusion and this study advocates this.

In this manner the study specifically focuses on Sonapat district of Haryana in identifying the challenges of financial inclusion. This implies that there is a need to conduct another study that provides holistic results for all the rural areas of India so that the universal challenges can be identified, and a solution can be proposed to address them.

## 7. Implications of the study

The result of the study reveals that the lack of infrastructure in rural areas is the major reason why there pertains financial exclusion. People in rural areas find documentation process to be burdensome and they also said that lack of internet facilities is also a major reason. This implies that the banks and regulatory bodies must focus on educating individuals about documentations process and making the entire system user friendly. It is also important to ensure that there is proper internet connection so that the scope of financial inclusion can be enhanced. The study is also important for the researchers who want to imitate the same study on a different rural area.

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