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EVALUATING BANKING STRATEGIES FOR FINANCIALLY EXCLUDED POPULATIONS: A QUALITATIVE ENQUIRY

Dr. Rajeesh P
Assistant Professor
Department of Economics
N.S.S. College, Nemmara, Palakkad
ORCID ID: https://orcid.org/0000-0003-3611-0167

ABSTRACT

Financial inclusion has become a key policy objective for achieving inclusive economic growth in developing countries. Despite considerable expansion in the banking sector, a significant portion of low-income populations in India remains financially excluded. This qualitative enquiry explores banking strategies designed to integrate marginalized populations into the formal financial system. The study analyses experiences, perceptions and barriers faced by financially excluded individuals in Kerala. The findings reveal that while initiatives such as no-frills accounts, credit facilities and financial literacy programs have improved access, issues such as low awareness, procedural barriers and dependence on informal credit sources continue to hinder effective financial inclusion. The study suggests strengthening financial literacy, simplifying banking procedures and expanding technology-enabled financial services.

Key Words: Jan Dhan Account, Micro Finance, Financial Literacy, Digital Payments, Inclusive Growth

INTRODUCTION

Financial inclusion is emerging itself as a widely discussed topic in this global scenario. The term "Financial Inclusion" refers to the availability of banking services at an affordable cost to disadvantaged, low-income groups of the country. In India, the basic concept of Financial Inclusion lies in the idea of having a savings or current account in any bank for each individual. For Banks, Financial Inclusion is considered to be a business strategy in an overall business environment to facilitate growth. Financial Inclusion mainly focuses to help the low income groups who do not have access to any formal financial institutional aid, to get rid away from the clutches of local money lenders. As a first step towards this, some of our banks have now come forward with general purpose credit cards as well as artisan credit cards which offer collateral-free loans. Banks are strategizing to fulfill the Financial Inclusion dream. The products designed by the banks are not satisfying the demands of low income groups. The provision to provide the banking products at an affordable cost will be helpful for the inclusion of the low income groups into the banking services. The present study focuses on the various dimensions of Financial Inclusion(specifically the developmental aspects) of the Scheduled Tribes ;it also brings to light the present status of banking policies in Kerala and how much does they serves the former purpose.

STATEMENT OF THE PROBLEM

Financial inclusion has emerged as an important policy initiative aimed at extending banking and financial services to economically weaker sections of society. In order to promote financial inclusion, banks have introduced no-frills accounts, which allow individuals from low-income groups to open bank accounts with either a very low or zero minimum balance. These accounts are designed to provide basic banking facilities with certain restrictions on transactions so that financially excluded populations can be brought into the formal financial system.

However, a major challenge arises in the cost of opening and maintaining such accounts. Banks incur administrative and operational expenses in managing these accounts, while many of them remain inactive due to minimal or irregular transactions. As a result, maintaining accounts with very low balances becomes economically unviable for banks, creating concerns regarding the sustainability of financial inclusion initiatives.

Poor households regularly engage in financial activities such as saving, borrowing and making payments, but they often lack access to appropriate financial products and services. To improve their economic security and quality of life, they require financial services that are affordable, accessible and tailored to their needs. Achieving this requires addressing both human and institutional challenges, including quality of access, affordability of financial products, institutional sustainability and outreach to the most financially excluded populations.

Financial inclusion has gained considerable importance in India as it provides opportunities for millions of low-income individuals to participate in the formal financial system and improve their socio-economic conditions. Institutions such as the Center for Financial Inclusion have emphasized that access to suitable financial services is essential for economic development and poverty reduction. With the growth of microfinance and other financial initiatives, there is increasing potential to expand financial services to previously excluded populations.

Despite these developments, identifying financially excluded groups and ensuring their active participation in the financial system remains a major challenge. Financial inclusion efforts may fail in the absence of adequate technological support, effective delivery mechanisms, institutional commitment and inclusive policies.

Kerala has been recognized as one of the first states in India to achieve near universal financial inclusion by ensuring that at least one member from every household has access to a bank account. However, merely opening bank accounts does not guarantee meaningful financial inclusion unless these accounts are actively used and supported by appropriate financial services.

In this context, the present study attempts to examine the extent to which financial inclusion initiatives have effectively reached low-income groups and how banking strategies facilitate or limit their participation in the formal financial system.

RESEARCH OBJECTIVES

1. To examine the pattern of financial inclusion in Kerala.
2. To explore banking strategies designed for financially excluded populations.
3. To understand people's perceptions and experiences regarding banking services.
4. To identify barriers preventing effective financial inclusion.

RESEARCH QUESTIONS

RQ1: What are the experiences of low-income populations in accessing banking services?
RQ2: How do banking strategies contribute to financial inclusion among marginalized communities?
RQ3: What level of awareness do financially excluded populations have regarding financial services?
RQ4: What are the institutional and socio-economic barriers preventing financial inclusion?
RQ5: How do individuals perceive the role of banks and government institutions in promoting financial inclusion?

METHDOLOGY OF THE STUDY

Study is exploratory in nature. The data collected through both primary and secondary data to throw light upon the financial inclusion. The primary data have been collected by the way of interview method. This survey technique is used to enquire the major objectives of the study, especially the performance of financial inclusion accounts in banks. The study then went to explore and find out the various underlying relationship between relevant variables like income and savings of the customers.

The secondary data available are in the form of market intelligence and various banking survey reports are used to achieve the targeted objective trend and pattern of financial inclusion in kerala. The study also depends upon various descriptive essays related to this phenomenon that appeared in various newspaper, journals, periodicals,websites etc, has been collected and analyzed.

Sampling technique

Since the study decided to focus upon urban and rural areas of malappuram district.

Stratified random sampling is selected. The study relied upon various measure of descriptive statistics and inferential statistics to fulfill the objectives of the study. Measures of central tendency , variability and the tool of the multivariate analysis like cross tabulation etc, for the analysis of the data.

REVIEW LITERATURE

Kuldeep Singh and Anand Singh Kodan (2011) "*financial inclusion and development and its determinants: an empirical evidence of Indian states",* analysed the relationship between financial inclusion and development with the help of index of financial inclusion. This paper also attempt to identify factors associated with regression analysis for this purpose, 15 states have been selected out of 28 states and 6 union territories. After analysed the data the study found that the financial inclusion index has positively and significantly associated with socio-economic development. The present study attempt to examine the major objectives like role of financial inclusion in development, the spatial pattern and inequality of financial inclusion in India and finally the factors associated with financial inclusion. The data has been collected and analysed with the help of wide range of appropriate statistical technique such as Mean, SD, CV, T-Test ACGR and OLS. The major findings of the study indicate that financial inclusion and overall development index like HDI, PCI, and NSDP both are significantly and positively related.

Sreedevi V (2011) *"financial inclusion and rural development"* reported that India is still home to world largest number of poor. The urban-rural gap is getting wider. A sizable section of the population, particularly the vulnerable group continues to remain excluded from even the most basic opportunities and services provided by the various sectors, especially, financial sectors. For higher economic growth these vulnerable and weaker groups should be included. Achieving financial inclusion for them is a challenge for the financial sector of a country. It requires collective effort of banking industry, insurance, government and other financial institution and, above all, the people. By realizing the urgent need for bringing the urban and rural poor to the formal financial system, the government has taken proper initiative towards financial inclusion. The major objectives of the study are to find out number of person having no frill account, the awareness level of saving and other financial services provided and the people desire of opening a bank account. The collected data is analysed through percentage analysis.

Rangarajan(2008); *"the report committee on financial inclusion"* viewed that financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial inclusion should include access to mainstream financial products such as bank account, credit, remittances and payment services, financial advisory services and insurance facilities. Several steps have been taken by the various banks, NGOs and government to bring the financially excluded people to the fold of the banking services. The 100 percent financial inclusion drive is progressing all over the country. Financial inclusion in rural areas is necessary and profitable for banking sectors. The focus is on the financial inclusion in rural areas and what are the problem faced by banks and reason of financial exclusion of the rural people.

HYPOTHESIS

H0 = Regarding the financial inclusion services provided by the banks, there isn't any awareness among society.
H0 = Regarding the income level and the financial inclusion policies intended for the society, there isn't any significant relationship
H0 = Regarding commodity shift and Financial Inclusion of community, there isn't any relation with both variable
H0= Regarding government policies and welfare of the society, there isn't any significant relationship

FINANCIAL INCLUSION: A THEORETICAL FRAMEWORK

Financial inclusion, also referred to as inclusive financing, involves the delivery of financial services at affordable costs to disadvantaged and low-income segments of society. It can be understood as the opposite of financial exclusion, where certain groups remain outside the formal financial system. Financial inclusion is therefore a process through which financial services are made accessible to all sections of the population, particularly the unbanked. Since banking services have the characteristics of a public good, ensuring universal access to banking and payment services without discrimination has become an important objective of public policy.

The Committee on Financial Inclusion chaired by Dr. C. Rangarajan (2008) defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost." This definition highlights the importance of both accessibility and affordability of financial services.

The concept of financial inclusion gained prominence during the early 2000s following the recognition of financial exclusion and its close relationship with poverty. Since then, financial inclusion has become a major policy objective for central banks and governments in many developing countries. By expanding access to financial services, financial inclusion enables individuals to participate in financial markets, access credit facilities and develop financial awareness and literacy.

Financial inclusion is not limited to providing credit to the poor; it also encompasses access to a wide range of financial services such as savings, loans, insurance, payment systems, remittance facilities and financial advisory services. Access to these services enables individuals to manage financial risks, improve economic security and enhance their overall quality of life. Furthermore, financial inclusion enables governments to deliver welfare benefits such as pensions, subsidies and insurance payments more efficiently and transparently.

An inclusive financial system also promotes transparency and reduces corruption by facilitating direct transfer of benefits to beneficiaries. It strengthens the relationship between citizens and the financial system and encourages responsible financial behaviour among individuals.

OBJECTIVES OF FINANCIAL INCLUSION

The key objectives of financial inclusion include the following:

- To provide access to mainstream financial services such as savings accounts, credit facilities, insurance, payment services, remittance services and financial advisory support.
- To protect low-income groups from exploitation by informal money lenders by integrating them into the formal financial system.
- To ensure financial and institutional sustainability so that financial services remain accessible over time.
- To promote the participation of multiple financial service providers in order to offer cost-effective and diversified financial products to customers.

BENEFITS OF FINANCIAL INCLUSION

Financial inclusion provides several economic and social benefits. First, it facilitates the establishment of formal banking relationships, enabling individuals to access a variety of savings and credit products for purposes such as housing, consumption and investment.

Second, an inclusive financial system contributes to the efficient allocation of productive resources and helps reduce the overall cost of capital in the economy. Access to formal financial channels also enables individuals to transfer funds safely and at lower costs.

Third, financial inclusion allows governments to deliver social security benefits such as health insurance, pension schemes and disaster relief more effectively through bank accounts. From the perspective of banks, the availability of social security mechanisms reduces the risk associated with lending to economically weaker sections, thereby encouraging greater credit flow to these groups.

FINANCIAL INCLUSION LIFECYCLE

Financial inclusion is a continuous process rather than a single event. Merely opening a bank account for a poor individual does not guarantee financial inclusion, as such accounts often remain inactive or are used only for receiving government benefits. A comprehensive financial inclusion strategy therefore involves a three-stage lifecycle.

Step 1: Financial Literacy

The first stage of financial inclusion is financial literacy. Individuals must understand financial products, banking operations and account management in order to effectively participate in the financial system. The Reserve Bank of India defines financial education as the process through which consumers improve their understanding of financial products, risks and opportunities and develop the skills required to make informed financial decisions. Financial literacy initiatives are often promoted through microfinance institutions, self-help groups, cooperative banks and rural banks.

Step 2: Opening a Bank Account

The second step is providing access to formal banking facilities through the opening of bank accounts. This enables financially underserved individuals to participate in the formal financial system. To encourage account ownership, the Reserve Bank of India introduced basic **"no-frills" accounts** with either zero or very low minimum balance requirements. Simplification of **Know Your Customer (KYC)** norms has also helped reduce procedural barriers to opening bank accounts.

Step 3: Delivery of Financial Services

The final stage involves ensuring the effective delivery and use of financial services. One of the major challenges in financial inclusion is the cost of delivering services to remote and low-income populations. To address this issue, banks often rely on the **Business Correspondent (BC) model**, where agents provide financial services such as account opening, loan disbursement and repayment collection at the doorstep of customers.

However, conventional delivery models have limitations in terms of coverage and security. Technology-enabled delivery channels such as ATMs, mobile banking and internet banking have therefore emerged as important tools for expanding financial inclusion. With appropriate policy support, technology-driven financial services can significantly improve access, reduce transaction costs and enhance the efficiency of financial service delivery.

CONCEPTUAL MODEL OF FINANCIAL INCLUSION

Financial inclusion is influenced by multiple factors including financial literacy, accessibility of banking institutions, banking policies and government initiatives. Social networks such as neighbours, relatives and local institutions also play an important role in facilitating access to banking services.

Financial Literacy + Banking Accessibility + Government Policies + Technology
→ Awareness and Social Support
→ Access to Banking Services
→ Usage of Financial Products
→ Effective Financial Inclusion

The qualitative data collected from interviews were analyzed using thematic analysis. Responses were coded and categorized into key themes reflecting the experiences and perceptions of financially excluded populations.

DATA ANALYSIS AND INTERPRETATION

The qualitative analysis focuses on the experiences, perceptions and behavioural patterns of respondents regarding financial inclusion and banking services. The respondents constitute the primary unit of analysis. Based on the responses collected from the field survey, the analysis is organised into three broad themes:

Profile of financial inclusion accounts
Problems and constraints in financial inclusion
Assessment of banking strategies and service utilisation

The interpretation is based on the responses of 120 participants drawn equally from rural and urban localities.

I. Profile of Financial Inclusion Accounts

Accessibility of banking facilities plays a crucial role in promoting financial inclusion. The respondents reported that most banking institutions were located within a reasonable distance from their place of residence. A majority of the respondents stated that bank branches were available within two to five kilometres from their locality. Public sector banks were the dominant banking institutions in the study area, followed by urban co-operative banks, while private sector banks had only a limited presence.

Despite the presence of banking institutions within reachable distance, respondents from rural areas expressed that travelling to banks still required time and transport expenditure. Urban respondents reported comparatively easier access to banking services.

2. Support in Opening Bank Accounts

Opening a bank account is often influenced by social networks and institutional support. The responses indicate that neighbours and friends played an important role in encouraging individuals to open bank accounts. Informal social relationships therefore functioned as an important channel in spreading banking awareness.

In addition, village panchayath officials and bank officials also assisted respondents in opening accounts. Panchayath officials were particularly influential in rural areas as they acted as intermediaries between financial institutions and villagers. Relatives were another source of assistance, indicating that family networks contributed to financial inclusion.

3. Types of Bank Accounts Held

Most respondents possessed savings bank accounts, reflecting the role of banking institutions in promoting savings behaviour. Savings accounts were preferred because they provide safety for deposits and allow convenient financial transactions.

A small proportion of respondents held current accounts, mainly those engaged in business or trade. Another group maintained fixed deposit accounts, which were used primarily for long-term savings purposes. The study also revealed that the majority of respondents had opened their bank accounts several years earlier, suggesting that financial inclusion initiatives have gradually expanded banking participation.

Another important observation was that respondents mainly preferred public sector banks and urban co-operative banks, while private sector banks had limited penetration in the study area.

4. Awareness of No-Frills Accounts

The study found that awareness regarding no-frills accounts and financial inclusion initiatives was relatively low among respondents. Only a small proportion of respondents were aware of the policy that allows individuals to open accounts with zero minimum balance.

Among those who were aware of this initiative, village panchayath representatives were the main source of information. Self-Help Group (SHG) members, NGOs and neighbours also contributed to spreading awareness, although their role was comparatively smaller. Surprisingly, bank officials themselves were not a major source of information dissemination. This indicates that local governance institutions played a stronger role in promoting financial inclusion awareness than formal banking channels.

II. Problems and Constraints in Financial Inclusion

1. Preference for Informal Credit Sources

Although formal banking services were available, some respondents still depended on informal credit sources such as money lenders or microfinance institutions. The reasons reported by respondents included lengthy legal procedures, delayed credit approval, language barriers, and the requirement of collateral security.

Many respondents perceived the formal banking system as complex and time-consuming. In contrast, money lenders were considered more accessible because they provided quick and doorstep financial services without complicated documentation.

2. Purpose of Borrowing

The responses revealed that loans were taken mainly for economic as well as social purposes. Some respondents borrowed money for productive activities such as agriculture, animal husbandry and starting small businesses. However, a significant number of respondents reported borrowing money for health expenses and marriage ceremonies, which indicates the role of credit in meeting household contingencies.

This pattern suggests that financial inclusion must address both income-generating credit needs and consumption-related financial shocks faced by households.

3. Structural Obstacles to Financial Inclusion

Respondents identified several structural barriers that limit the effective implementation of financial inclusion initiatives. Distance to bank branches was considered one of the major difficulties faced particularly by rural customers. In addition, the small size of loans provided by banks was perceived as insufficient for meeting financial requirements.

Other challenges highlighted by respondents include lack of collateral security, limited banking habits among villagers, shortage of qualified banking personnel, and procedural complexities related to documentation. These obstacles reduce the willingness of individuals to approach formal financial institutions.

III. Assessment of Banking Strategies

1. Awareness and Use of Banking Services

Financial inclusion is not only about opening bank accounts but also about the usage of financial services. The responses indicate that most respondents were familiar with basic banking services such as depositing and withdrawing money, maintaining passbooks, and using cheque books.

However, awareness and usage of more advanced financial services such as credit cards, General Credit Cards (GCC) and Kisan Credit Cards (KCC) were relatively low. This suggests that although people have access to basic banking facilities, the range of financial products utilised remains limited.

2. Reasons for Visiting Banks

Respondents reported visiting banks primarily for depositing money and withdrawing cash. Other common purposes included updating passbooks and depositing cheques. A smaller number of respondents visited banks for obtaining loans or making loan repayments. This indicates that banking activity among respondents is largely transaction-oriented rather than credit-oriented.

3. Customer Expectations and Satisfaction

The study explored respondents' perceptions regarding the performance of banks and financial inclusion programmes. Respondents generally expressed moderate satisfaction with the services provided by banks. However, satisfaction with banking products was relatively lower, suggesting that existing financial products may not fully meet the needs of customers. Respondents also felt that government initiatives for financial inclusion require further improvement. Self-Help Groups and NGOs were perceived as contributing positively to financial education among villagers, though their impact remained limited.

Financial services actively contribute to the human and economic development of the society. These lead to social safety net and protect the people from economic shocks. Hence, each and every individual should be provided wit affordable institutional financial products/services popularly called " financial inclusion".

Despite witnessing substantial progress in financial sector reforms in india, it is disheartening to note that nearly half of the rural households even today do not have any access to any source of funds- institutional or otherwise. Hardly one fourth of the rural households are assisted by banks. Hence the major task before banks is to bring most of those excluded, i.e. 75 percent of the rural households, under banking fold.

There is a need for the formal financial system to look at increasing financial literacy and financial counselling to focus on financial inclusion and distress amongst farmers. Indian banks and financial market players should actively look at promoting such programs as a part of their corporate social responsibility. Banks should conduct full day programs for their

clientele including farmers for counselling small borrowers for making aware on the implications of the loan, how interest is calculated, and so on, so that they are totally aware of its features. There is a clearly a lot requires to be done in this area.
This enables the customer to remit funds at low cost. The government can utilise such bank accounts for social security services like health and calamity insurance under various schemes for disadvantaged.

Access to appropriate financial services can significantly improve the day to day management of finances. A bank can also provides a passport to a range of other financial products and services such as short term credit facilities, overdraft facilities and credit card. Further, a number of other financial products, such as insurance and pension products, necessarily require the access to a bank account.
It paves the way for establishment of an account relationship which helps the poor to avail a variety of savings products and loan product for housing, consumption, etc

MAJOR FINDINGS

The findings of the study provide valuable insights and bust certain myths regarding financial inclusion, particularly among the urban and rural areas.
Findings from the primary survey

MAJOR QUALITATIVE FINDINGS

• Gender was not found to be a major barrier in accessing bank accounts among the respondents.
• Occupation influences banking participation, as farmers, salaried employees and business owners are more likely to hold bank accounts than land labourers and low-income workers.
• Higher educational attainment increases awareness and likelihood of having a bank account.
• Individuals with higher or stable income levels are more likely to open and maintain bank accounts.
• Savings accounts are the most commonly used banking product among respondents.
• Initial deposit requirements influence rural customers to open bank accounts, while awareness of no-frills accounts remains limited.
• Farmers mainly depend on co-operative banks and societies for agricultural loans.
• Loan requirements vary by occupation, with business owners requiring larger loans than farmers.
• Most respondents visit bank branches only once a month.
• Depositing money, withdrawing cash and updating passbooks are the most common banking activities.
• No-frills accounts are not widely adopted despite efforts to promote financial inclusion.
• Some respondents continue to depend on informal sources such as money lenders for credit.
• Lengthy procedures and collateral requirements discourage people from taking bank loans.
• Lack of documentation, low literacy and limited knowledge of banking services hinder

account opening.

• Respondents are aware of various banking services but have limited capacity to use them effectively.

• Overall satisfaction with banking services and financial inclusion initiatives is moderate rather than high.

DISCUSSION

The findings suggest that financial inclusion initiatives have improved access to banking services but have not fully addressed the deeper structural barriers that prevent effective usage. Financial inclusion should not be viewed merely as the opening of bank accounts but rather as a comprehensive process involving financial literacy, institutional accessibility, and active participation in financial services. Technology-enabled banking solutions such as mobile banking, digital payments, and biometric identification systems may help bridge the gap between financial institutions and marginalized populations.

CONCLUSION

Financial inclusion is essential for promoting equitable economic development and improving the socio-economic conditions of marginalized communities. Although significant progress has been made in expanding banking infrastructure and introducing financial inclusion policies in India, many challenges remain.

The study highlights the need for stronger financial literacy programs, simplified banking procedures, and better outreach strategies to ensure meaningful financial inclusion. Achieving a truly inclusive financial system requires collaboration between banks, government institutions, community organizations, and local governance bodies. Only when financial services are accessible, affordable, and actively used can financial inclusion contribute effectively to sustainable development.

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