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FINANCIAL INCLUSION AND BEHAVIOURAL FINANCE: A CONCEPTUAL FRAMEWORK

Priyansha Hazarika*
Prof. Amalesh Bhowal**

ABSTRACT

Financial inclusion defines a phenomenon of shifting paradigm from unbanked to banked, i.e. having access to formal financial services by all the individuals irrespective of gender, class, status and income (Uchenna Efobi & Osabuohien, 2014),(Thomas & Natarajan, 2018). We have observed that all individuals do not have access to or live -in denial to approach the financial institutions to avail the basic financial services due to different behavioural biases, i.e., where the role of behavioural finances comes into play. Behavioural finance is a new age finance which take into consideration human behaviour and perspective which explains the motive or reasoning pattern behind financial decision making of an individual because having only ownership of a bank account cannot be considered as an exact indicator of financial inclusion. In other words, behavioural financial explain various nuances of finance from behavioural perspective of human psychology (Simon, 2000). This paper aims to develop a cause-effect conceptual framework initiative dealing with financial inclusion and behavioural finance, i.e., how different behavioural biases impact financial inclusion.

Keywords: *Financial Inclusion, Behavioural Finance, Behavioural Biases.*

Introduction

Financial inclusion is a process which ensures every individual gets access to formal financial services which include both banking and non-financial service at equal par for all. It mainly focusses on actual usage of a bank account by its holder to avail the various benefits from the banks rather than approaching the informal market to meet their interest and needs (Thomas & Natarajan, 2018). Recent policies and initiatives in relation to financial inclusion undertaken by the Government aims to reach out to those people who were overlooked in the past with best possible services to serve to the needs of various categories as well as reach out the unbanked individuals at remote places. But reasons of not achieving desired level of success has been looked into from the perspective of behavioural finance because it is a branch of finance that deals with human psychology which can be better platform to understand the cons of financial inclusion.(Datta & Desai, 2018).

Background of the Study

British lexicon first used the term 'Financial Inclusion' when it was found that nearly 7.5 million persons did not have a bank account (Garg & Agarwal, 2014). Initial definition of financial inclusion was to achieve a more inclusive financial system for the unbanked and undeserved, i.e., to bring them under the purview of financial to get the access and use of bank services to generate economic growth because

* Ph.D Research Scholar, Department of Commerce, AUDC, Mahatma Gandhi School of Economics and Commerce, Assam University, Diphu Campus (a Central University), Assam, India.
** Professor, Department of Commerce, AUDC, Mahatma Gandhi School of Economics and Commerce, Assam University, Diphu Campus (a Central University), Assam, India.

studies have proved that lack of inclusion or financial exclusion from banking system results in loss of GDP(Tovar, Zárate, Pavón, & Tacujan, 2014), (Damodaran, 2013).In India, introduction of financial inclusion can 1904 when cooperative movement took place. When 14 major commercial banks of the country were nationalised in 1969 along with the introduction of led bank scheme shortly, financial inclusion gained its momentum. In the later period, definition and scope of financial inclusion got broad due to the introduction of telecommunication and information technology(Damodaran, 2013). Not only there was a shift from manual work to computerised work, which was hard for the providers(bank providers) as well recipients(general public) which aggregate the problem of financial inclusion because human aspect was taken into consideration only through artificial intelligence. Problem of financial decision making related to how, which, when, where to approach a bank to open a bank account can only be resolved if efforts are made to understand behavioural perspective or human insecurities pertaining to a financial decision can only be resolved by the introduction of behavioural finance.

Review Literature

- **Financial Inclusion Related**

Financial inclusion is an effort to provide basic banking services to the unbanked people which also includes vast portion and vulnerable class at a reasonable and affordable price in a transparent manner (Gupta, Chotia, & NV, 2014), (Anwar, Tanzo, & Mostafa, 2017).Mere opening of a bank account cannot alone solve the problem of financial inclusion; it also demands continued usage of the accounts. Thus, successful implementation of financial inclusion requires financially sound and capable consumers who uses their account on regular basis for their own benefit. In the recent past, it is observed that there is a rapid expansion in the number of first time customers that proves to be a boon for both providers as well as customers. But if the customers are not financially sound and capable, it may prove to be a ban as it will lead serious financial problems such as dormant accounts and indebtedness. Thus, this study shows that financial capability is a pre requisite of financial inclusion (Arnold & Rhyne, 2016).Moreover, banking behaviour which means behaviour and treatment of the bank towards their customers without any bias and prejudice; and full transparency also plays an important role in financial inclusion because behaviour of bank portrays their picture to the outside world as no endorsement works besides word of mouth promotion that works best in the banking scenario. Expectations of banks towards their customers and estimated risks that arises from customers are co-related. If banking expectations are positive, it is assumed that consumer's business with bank will run smoothly and vice-versa (Heripson, 2019).

- **Behavioural Finance Related**

Traditional finance always assumed that investors being a human is always rational. But in the real world, it is commonly observed that investor's financial decision are not always governed by logic; it is emotions which encompasses fear, greed, anxiety, regret, etc., that rules one's decision making power. Every financial decision involves certain degree of risk and uncertainty. Whenever, investors encounter uncertainty in the financial decision making, they become baffled by the fear of loss and regret. Investment decision making is not always numbers and figures; investor's attitude, risk taking capability and perception, psychology, emotions and sentiments play a crucial role as well. To eliminate shortcomings of traditional finance, behavioural finance is one stop solution to deal with uncertainty, irrational decision making and effect of different emotional factors which creates different illusions and mental frames. Thus, behavioural finance focusses on pre and post effect of the financial decision, i.e., thought behind the decision rather than the decision alone (Singh, 2012), (Zhang & Zheng, 2015), (Sushmita Goswami & Sharma, 2020).

The select behavioural biases for the study are: **Representative bias** is a cognitive shortcut where individuals find it easier and faster to access how closely a scenario corresponds to a similar question because they fail to calculate and utilize probability their decision (Hens & Meier, 2016). **Conservatism** refers to one's insufficiency to revise the decision and perspective when presented new set of information and evidence(Hens & Meier, 2016). C**onfirmation bias** refers to the tendency to search for evidence to favour, support and confirm one's existing belief(Hens & Meier, 2016)**. Hindsight bias**refers to the tendency to the scenario when past event creates an illusion of importance then they are, which leads individuals to believe said events were predictable without any objective basis (Hens & Meier, 2016). **The illusion of control** is a bias when individuals overestimate decision making capability as try to control the events and influence it's result without any objective basis (Hens & Meier, 2016)**. Anchoring** refers to subconscious use of irrelevant information as reference point or as an anchor to one's decision (Hens & Meier, 2016). **Availability heuristic** refers to the mental shortcut used by an individual by relying on immediate facts, information, evidence or examples while evaluating a decision

(Hens & Meier, 2016). **Framing bias** occurs when decision based on the way the information is presented to them rather than information itself (Hens & Meier, 2016)**. Endowment bias** is a situation where we find that people continue to retain the things owned by them irrationally over those they do not own (Hens & Meier, 2016). **Loss aversion** tendency to prefer avoiding losses to acquiring equivalent gains (Hens & Meier, 2016). **Overconfidence bias** refers to the tendency to hold false and misleading assessment one's own capability and skills to handle various dimensions of a decision (Hens & Meier, 2016). **Regret aversion** refers to the tendency of individual to avoid distress and emotional pain arising poor decision making (Hens & Meier, 2016). **Status quo bias** refers to situation where people prefer that things remain same always(Michael O. Adair).

Research Gap Vis a Vis Objective of the Study

After reviewing the existing literature of Financial Inclusion and Behavioural Finance, it was observed by the researchers that no work has been conducted related to Financial Inclusion in relation to Behavioural Finance. Hence it leads to the major research question 'Whether the anomalies in the domain of Financial Inclusion be resolved from the kaleidoscope of the behavioural biases emanating from Behavioural Finance'.

This study serves to answer the above research question by developing a theoretical conceptual framework depicting the role of select behavioural biases on financial inclusion. In other words, by reviewing different sources, effort is made to identify different shortcomings responsible for financial inclusion scenario in India and other countries; and link those shortcomings with select behavioural biases.

Research Methodology

Qualitative research is used for the concerned study because it involves collecting and analysing non-numerical data (e.g., text, video, or audio) to understand concepts, opinions, or experiences. Qualitative research is used to understand how people experience the world. While there are many approaches to qualitative research, they tend to be flexible and focus on retaining rich meaning when interpreting data (Bhandari, 2020).

Criticism against Current Financial Inclusion Framework

- **Indian Experiences**

(Gupta, Chotia, & NV, 2014) observed in the past years growth encountered by India cannot be traced to rural India; main reasons being lack of adequate and safe banking facilities to these groups. In rural areas of Jammu & Kashmir, reason for financial exclusion being poor internet connectivity and existence of financial illiteracy (Kaur & Abrol, 2018). Moreover, some other reasons for financial exclusion lack of awareness, low income, poverty and illiteracy; and from the supply side is distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. (Damodaran, 2013)

- **Other Countries Experiences**

In Nigeria, to influence the potential customers development of ICT is crucial (Uchenna Efobi & Osabuohien, 2014).Among the South Asian countries, the main reason for financial exclusion in Afghanistan can be attributed to war and political turmoil; and in Pakistan, reason for financial exclusion being majority of population being unbanked and approaching informal moneylenders to meet their needs(Anwar, Tanzo, & Mostafa, 2017).Despite of various remedial measures, financial inclusion gaps still exist with substantial impact on rural livelihoods in Bangladesh, major reasons being: gender gap, lack of savings, loans (Choudhury, 2015). Some challenges in the application of Financial Inclusion in Indonesia are: immature regulations, overlapping rules for potential fraud (shadow banking, MLM, money games), disruptive innovation fintech technological acceleration is a problem, job polarization, digital divide and a cut in economic growth (Prasetiyani & Vikaliana, 2020). The main reason for financial exclusion in Central and West African countries are: voluntary exclusion, involuntary exclusion as well as existence of self -withdrawn group. In Zimbabwe, the main reason for financial exclusion being documentation (Sanderson Abel & Roux, 2018).

Cause-Effect - Conceptual Frame working Initiative

In this section, shortcomings responsible for financial inclusion scenario (AS THE EFFECT) in India as well as other countries identified in above sections are listed down and linked with the select behavioural biases (AS THE CAUSE) in the tabular form to show that there exist behavioural dimensions for the shortcomings.

Table 1

Shortcomings Responsible Financial Inclusion Scenario In Other Countries	Matched Behavioural Biases
• Immature regulation • Gender gap • Overlapping rules for potential fraud • Disruptive innovation • Technological acceleration/digital divide • Voluntary exclusion: religious or cultural reasons or lack of interest in financial system • Involuntary exclusion: lack of trust in financial system/ barriers such as affordability, inappropriate product design and inability to meet eligibility criteria • Self -withdrawn groups: who scales access barriers, but then withdraws from the financial system • Informal market existence • Documentation • Need for ICT • War and political turmoil • Unbanked/ lack of interest or need to open a bank account	• Anchoring and regret aversion • Hindsight bias and illusion of control • Overconfidence bias • Status quo bias • Conservatism bias and hindsight bias • Anchoring bias and endowment bias • Loss aversion and regret aversion • Overconfidence bias, illusion of control and endowment bias • Representative bias and conservatism bias • Availability bias and conservatism bias • Framing bias • Representative bias, conservatism bias and hindsight bias • Overconfidence bias, loss aversion, regret aversion and endowment bias

Source: Conceived by Authors after Reviewing the Literature

Table 2

Shortcomings Responsible Financial Inclusion in India	Matched Behavioural Biases
• Lack of awareness • Low income • Poverty • Financial illiteracy/ lack of financial knowledge • Distance from branch • Branch timings • Cumbersome documentation • Unsuitable products, language, staff attitude • Lack of adequate and safe banking facilities • Lack of ICT facilities • Lack of infrastructure	• Regret aversion and loss aversion • Confirmation bias • Representative bias and confirmation bias • Anchoring and framing bias • Status quo bias • Status quo bias • Availability bias and conservatism bias • Hindsight bias and status quo bias • Anchoring, framing bias and endowment bias • Framing bias • Anchoring, framing bias and endowment bias

Source: conceived by authors after reviewing the literature

Thus, better implementation of financial inclusion we need to complement advancement in technology with better understanding of human behaviour because unless until we give importance to human aspect of finance, we cannot expect successful implementation of financial inclusion. Spending crores in advertising and marketing to influence the mass to get into paradigm of financial system, efforts should made to understand behavioural psychology and do the needful. Study of Behavioural Biases and their impact on Financial Inclusion has been always a non-preferred area.

Conclusion

In this paper, authors made an effort to understand financial inclusion in broad term, but mainly to identify the shortcomings responsible for failure of financial inclusion in India as well in other countries and related it to select behavioural biases. A detailed applied study is highly essential as revealed by the theoretical study. To conclude, behavioural aspect of finance should be considered as a solution to mitigate the shortcomings of financial inclusion or financial exclusion because human psychology or behaviour plays a great role in financial decision making of an individual; whether it be opening a bank account; or using the bank account; or availing the services offered by the bank because mere opening a bank account cannot justify financial inclusion as a whole.

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