# "Unravelling Psychological Barriers to Financial Inclusion: Understanding Perceptions, Attitudes, and Behavioural Biases"

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## Abstract:

The psychological obstacles that keep people from utilising and receiving financial services are examined in this study, which makes it more difficult to advance financial inclusion. It seeks to identify the fundamental causes of people's financial behaviours by examining their attitudes, biases, and perceptions when making financial decisions. Utilising psychological theories, empirical investigations, and real-life scenarios, the study underscores prevalent challenges like mistrust of financial institutions, skewed perceptions of risk, insufficient financial literacy, and cognitive biases. Using this inquiry, the research not only elucidates these challenges but also suggests tactics to mitigate their effects. This study advances our knowledge of these psychological dynamics and aids in the creation of focused strategies to promote financial inclusion. In the end, it enables people to make knowledgeable financial decisions and improve their overall finances.

**Keywords:**

Financial Inclusion, Psychological Barriers, Risk Perception, Financial Literacy, Behavioural Biases, Cognitive biases, Trust in financial institutions

## Introduction:

It is widely accepted that financial inclusion is a key factor in both economic expansion and the decline in poverty. It is defined as the availability and use of appropriate financial services by businesses and individuals. However, despite global efforts to broaden financial access, significant segments of the population remain excluded from the formal financial system. Psychological barriers that affect people's attitudes, beliefs, and behavioural biases about financial services are often the main cause of this exclusion, rather than only economic constraints and a lack of infrastructure.

Understanding these psychological barriers is essential to creating strategies that successfully promote financial inclusion. While economic considerations such as income levels and physical location certainly play a role, psychological barriers also have a major influence on the way individuals make financial decisions. These barriers can come in a variety of shapes and sizes, including negative perceptions of financial institutions, attitudes towards saving and borrowing, and cognitive biases that make it challenging to make prudent financial decisions.

People who think financial companies are scary, predatory, or unapproachable may be deterred from seeking them out, even in circumstances where they could benefit from financial services. It is often the case that historical occurrences and cultural concepts shape these impressions, creating hard-to-surmount barriers. Furthermore, financial behaviours can be significantly

impacted by attitudes regarding debt, saving, and money. For instance, some people might think that having debt is inherently shameful or that investing for the long term should come second to short-term consumption.
Furthermore, bad financial decisions may be the consequence of cognitive biases, which stem from the limitations and quirks of human psychology. Present bias is the tendency to prioritise short-term gains above long-term ones, which can be detrimental to long-term saving and financial planning practices. Likewise, people who have loss aversion, which is the inclination to fear losses more than similar gains, could be dissuaded from taking risks or experimenting with new financial products.
To address these psychological barriers, a comprehensive approach involving behavioural therapy, policy, innovation, and education is required. Stakeholders can begin to break down the psychological barriers preventing financial participation and access by implementing regulations that promote inclusivity, utilising technology to improve accessibility, fostering financial literacy and awareness, and tailoring products and services to meet a variety of needs.
To comprehend the psychological barriers to financial inclusion better, we want to investigate the intricate relationships among behavioural biases, attitudes, and perceptions in this study piece. Through the use of an interdisciplinary approach based on public policy, psychology, and economics, we hope to clarify the underlying causes of financial exclusion and identify workable solutions for promoting greater economic inclusion and empowerment. By removing these psychological hurdles, we hope to create inclusive financial systems that benefit individuals, groups, and economies worldwide.

## Literature Review:

Johnson and Schreiner's (2007) study found that low-income Americans' perceptions of banks as being untrustworthy or exploitative considerably hindered their uptake of savings accounts. According to Karlan et al. (2011), attitudes towards debt varied among socioeconomic classes, with those with lower incomes exhibiting a greater dislike of debt due to their concern over unstable finances. Thaler and Benartzi (2004) demonstrated the importance of behavioural biases in retirement savings behaviour and also demonstrated how default enrolment in savings programmes may lessen inertia and increase participation. Duflo et al. (2016) evaluated the impact of a financial literacy workshop on saves behaviour in rural India and discovered that participants' savings rates and financial decision-making dramatically increased.
A study conducted in 2007 by Beck et al. examined the relationship between the expansion of the financial sector and financial inclusion, highlighting the part that legislative changes have in increasing the accessibility of financial services for excluded populations. Demirguc-Kunt and Klapper (2012), discriminatory practices, limited mobility, and a lack of collateral are some of the reasons why women, particularly those who live in developing countries, have particular challenges accessing financial services. Gender roles and cultural norms can also have an impact on women's confidence in managing their finances and desire to engage with formal banking systems. Banerjee and Duflo, (2012) highlighted the importance of social norms and peer pressure when examining how social networks affected savings habits in rural India.

In a 2006 study, Norvilitis et al. examined the psychological effects of financial stress on college students and found a clear correlation between financial difficulties and depressive and anxious symptoms. Therefore, removing psychological barriers to financial inclusion might have broader implications for people's overall health and standard of living. Sherraden (1991) examined the cultural variations in the savings practices of low-income households, highlighting the importance of cultural sensitivity in the design of financial inclusion initiatives. In their 2008 study, Donner and Tellez examined the impact of mobile phone ownership on financial inclusion in rural Uganda. It became evident how important it is to get rid of technology obstacles to ensure that everyone has equitable access to digital financial services.

## Objective:

1. To investigate the psychological barriers that impede individuals from accessing and effectively utilizing financial services

2. To understand the cognitive, emotional, and social factors that shape financial decision-making

3. To identify common obstacles such as mistrust towards financial institutions

4. To examine Differences Across Populations towards financial institutions

5. To evaluate Potential Interventions that empower individuals to make more informed financial decisions

## Methodology:

The current study was carried out utilising a survey approach and is descriptive. Out of 200 respondents, 139 answered a short questionnaire intended for respondents in Pune, which helped collect the essential primary data. The questionnaire was emailed to the responders. Analysing Experimental Data Comparing decision-making tendencies under various experimental situations with statistical testing. To determine associations and significance levels, primary data has been collected and analysed using statistical techniques such as inferential statistics (t-tests, ANOVA) and descriptive statistics (mean, median, standard deviation). Books, research papers, essays, and publications in both domestic and international periodicals were the sources of the secondary data. The Internet is often consulted for information related to the topic. The geographical scope of the current investigation is Pune.

## Analysis & Major Findings:

### Table 1

Demographic characteristics (e.g., age, gender etc) influence your access to financial services

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| Age | 18-24 | 5 | 139 | 0.036 | < .001 |

Demographic characteristics (e.g., age, gender etc) influence your access to financial services

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| | 25-34 | 53 | 139 | 0.381 | 0.006 |
| | 35-44 | 67 | 139 | 0.482 | 0.735 |
| | 45-54 | 10 | 139 | 0.072 | < .001 |
| | 55-64 | 4 | 139 | 0.029 | < .001 |
| Gender | Male | 70 | 139 | 0.504 | 1.000 |
| | Female | 69 | 139 | 0.496 | 1.000 |
| How do you think your demographic characteristics | Strongly influence | 35 | 139 | 0.252 | < .001 |
| | Somewhat influence | 69 | 139 | 0.496 | 1.000 |
| | Neutral | 17 | 139 | 0.122 | < .001 |
| | Little to no influence | 18 | 139 | 0.129 | < .001 |

**Interpretation:**

While middle-aged groups are less impacted, younger and older age groups see a major influence on their access to financial services. Regarding access to financial services, there is no discernible variation in perspective between males and girls. A sizeable fraction of respondents feel that their access is substantially or somewhat influenced by their demographics, whereas a smaller but considerable group feels that there is no or little influence.

**Table 2**

How confident do you feel managing your finances using formal financial services?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| How confident do you feel managing your finances | Very confident | 70 | 139 | 0.504 | 1.000 |
| | Confident | 35 | 139 | 0.252 | < .001 |
| | Neutral | 34 | 139 | 0.245 | < .001 |

**Interpretation:**

There is a significant sense of financial self-efficacy among this demographic, as evidenced by the 50.4% who feel extremely secure in handling their finances utilising formal financial services. Although decreased, almost one-fourth (25.2%) of the respondents feel confident, which is still a sizable share of the population. A further quarter (24.5%) of respondents expressed a mixed sentiment on their confidence, suggesting a degree of doubt or ambivalence against utilising formal services for managing their finances.

**Table 3**

What challenges do you face when trying to access financial services such as banking, credit, or insurance?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| What challenges do you face when trying to access financial ser | Lack of trust in financial institutions | 30 | 139 | 0.216 | < .001 |
| | High fees and costs | 62 | 139 | 0.446 | 0.235 |
| | Lack of understanding of financial products | 31 | 139 | 0.223 | < .001 |
| | Privacy and data security concerns | 16 | 139 | 0.115 | < .001 |

**Table 2**

How confident do you feel managing your finances using formal financial services?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|

**Interpretation:**

A considerable proportion (30) of respondents expressed a lack of trust in financial institutions, which may impede their inclination to utilise these services. For many, high fees and prices represent a significant barrier (62) and point to the need for more reasonably priced financial solutions. A significant portion of respondents (31) reported having difficulty comprehending financial goods, suggesting a pressing need for more financial education and more transparent communication from financial institutions. Some respondents expressed serious worries about privacy and data security, emphasising the necessity of strong security measures and transparent information regarding data protection procedures.

**Table 4**

What are your primary reasons for not using financial services such as a bank account or credit card?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| What are your primary reasons for not using financial services | Lack of knowledge about services | 16 | 139 | 0.115 | < .001 |
| | High fees and costs | 33 | 139 | 0.237 | < .001 |
| | Distrust of financial institutions | 16 | 139 | 0.115 | < .001 |
| | Limited access to services in the area | 5 | 139 | 0.036 | < .001 |
| | Fear of fraud or scams | 69 | 139 | 0.496 | 1.000 |

**Interpretation:**

Because of their ignorance, a sizable portion of respondents (11%) do not use financial services, suggesting a need for more financial outreach and education. One significant obstacle (24%) is high fees and prices, indicating a need for more reasonably priced financial solutions. A noteworthy problem is the 11% distrust of financial institutions, underscoring the significance of fostering trust via increased openness and better customer service. Though it affects a smaller percentage, limited access to services (4%), it warrants increased service provision in underserved areas. The most common response (50%) is fear of fraud or scams, which affects almost half of the respondents. This suggests that improved security measures and transparent communication about fraud prevention are urgently needed.

**Table 5**

How do emotions influence your financial decisions?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| How do emotions influence your financial decisions? | Somewhat | 87 | 139 | 0.626 | 0.004 |
| | Neutral | 35 | 139 | 0.252 | < .001 |
| | Not at all | 17 | 139 | 0.122 | < .001 |

**Interpretation:**
The majority of respondents (62.6%) say that emotions play a role in their financial decisions, a percentage that is far higher than the predicted 50%. This implies that many people's financial decision-making is significantly influenced by their emotions. Relativity to the impact of emotions on financial decisions is less prevalent, as seen by the lesser percentage of respondents (25.2%) who expressed neutrality. It appears that a lack of emotional influence is uncommon among the respondents as only 12.2% of them say that emotions have no bearing at all on their financial decisions.

**Table 6**

To what extent do social influences (e.g., family, friends, community) affect your financial decisions?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| To what extent do social influences (e.g., family, friends, com | Strongly | 52 | 139 | 0.374 | 0.004 |
| | Somewhat | 35 | 139 | 0.252 | < .001 |
| | Neutral | 35 | 139 | 0.252 | < .001 |
| | Not at all | 17 | 139 | 0.122 | < .001 |

**Interpretation:**

Significantly more respondents (37.4%) say that social issues have a big impact on their financial choices. This shows that although there is a lot of social impact, it is not the main element for the majority of people. Social factors have some influence on the responders (25.2%). Regarding the impact of social media on their financial decisions, 25.2% of respondents are indifferent. Merely 12.2% of respondents state that social factors have no bearing whatsoever on their financial choices. This suggests that it is uncommon to have no social effect at all.

**Table 7**

Which cognitive biases do you believe may impact your financial decisions?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| Which cognitive biases do you believe may impact your financial | Loss aversion bias | 73 | 139 | 0.525 | 0.611 |
| | Anchoring bias | 14 | 139 | 0.101 | < .001 |
| | None of the above | 15 | 139 | 0.108 | < .001 |
| | Not sure | 37 | 139 | 0.266 | < .001 |

**Interpretation:**

Respondents (52.5%) think that their financial choices are influenced by loss aversion bias. This suggests that a well-known cognitive bias influencing financial decisions is loss aversion. Merely 10.1% of respondents think that anchoring bias influences their choices regarding money. This suggests that there is a lack of awareness or perception regarding the significant influence of anchoring bias on financial decisions. 10.8% of respondents, a small percentage, said that none of the cognitive biases mentioned affected their ability to make financial decisions.

**Table 8**

How would you rate your trust in financial institutions in your area?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| How would you rate your trust in financial institutions in your | low | 17 | 139 | 0.122 | < .001 |
| | Neutral | 87 | 139 | 0.626 | 0.004 |
| | high | 35 | 139 | 0.252 | < .001 |

**Interpretation:**

The vast majority of respondents (62.6%) hold an impartial perspective regarding financial institutions. A sizable percentage (25.2%) have a high level of faith in financial organisations. 12.2% of people are not very confident in financial institutions. These ratios indicate that a notable minority still has low trust in financial institutions, even though a sizable section of the population is either neutral or trusting towards them. The statistical significance (<.001) suggests that there is meaningful variation in respondents' trust levels, indicating that these differences are unlikely to be the result of coincidence.

**Table 9**

What specific factors contribute to your level of trust or mistrust in financial institutions?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| What specific factors contribute to your level of trust or mist | Transparency of fees and charges | 52 | 139 | 0.374 | 0.004 |
| | Customer service quality | 17 | 139 | 0.122 | < .001 |
| | Past experiences | 52 | 139 | 0.374 | 0.004 |
| | Reliability and stability of the institution | 18 | 139 | 0.129 | < .001 |

**Interpretation:**

37.4% of respondents cited complete fee and charge transparency as a key determinant of their degree of trust. This suggests that establishing confidence requires providing accurate and transparent information about expenses. 12.2% of respondents cited the quality of customer service as a determining factor in their level of trust. This implies that trust is formed in part by the way financial organisations manage their contacts with customers. Of the total, 37.4% said that their trust levels were influenced by past experiences. 12.9% of the institution's overall stability and dependability as a contributing element to their trust. Financial institutions might increase confidence by concentrating on enhancing openness, providing better customer service, remaining dependable, and skillfully resolving prior bad experiences. These initiatives are essential for maintaining client loyalty and building trust.

**Table 10**

How do psychological factors, such as fear of debt or aversion to risk, influence your financial decisions?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| How do psychological factors, such as fear of debt or aversion | Strongly influence my decisions | 52 | 139 | 0.374 | 0.004 |
| | Somewhat influence my decisions | 70 | 139 | 0.504 | 1.000 |
| | Do not influence my decisions | 17 | 139 | 0.122 | < .001 |

**Interpretation:**
Of the total, 37.4% said that these psychological issues had a significant impact on their financial choices. Of those surveyed, 50.4% said that these variables have some impact on their choices. This suggests that psychological considerations have a moderate influence on this group's financial decision-making. 12.2% of respondents said they are not influenced by these factors while making decisions. This minority suggests that certain people are less impacted by psychological variables when they make financial decisions. The statistical significance of the variations in responses is indicated by the p-values (<.001 or.004), which suggest that psychological factors have a considerable effect on financial decision-making among the respondents.

**Table 11**

In what ways do you believe your financial decisions are influenced by your experiences, values, or beliefs?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| In what ways do you believe your financial decisions are influenced | Strongly influenced | 34 | 139 | 0.245 | < .001 |
| | Somewhat influenced | 86 | 139 | 0.619 | 0.006 |
| | Neutral | 19 | 139 | 0.137 | < .001 |

In what ways do you believe your financial decisions are influenced by your experiences, values, or beliefs?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|

**Interpretation:**

Of the total, 24.5% said that their experiences, values, or beliefs have a significant impact on their financial decisions. This implies that their financial behaviours are significantly shaped by these personal aspects. Of those surveyed, 61.9% said that these variables have some impact on their decisions. This suggests that their financial decision-making is moderately influenced by their personal experiences, values, or beliefs. 13.7% of respondents had a neutral position, indicating that they don't think their personal experiences, values, or beliefs have a big impact on their financial decisions. There is a statistically significant variation in the way respondents' factors influence their financial decision-making, as indicated by the p-values (<.001 or.006).

**Table 12**

How do you think your demographic characteristics (e.g., age, gender, education, income level) influence your access to financial services?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| How do you think your demographic characteristics | Strongly influence | 35 | 139 | 0.252 | < .001 |
| | Somewhat influence | 69 | 139 | 0.496 | 1.000 |
| | Neutral | 17 | 139 | 0.122 | < .001 |
| | Little to no influence | 18 | 139 | 0.129 | < .001 |

**Interpretation:**

Of the total, 25.2% said that their access to financial services is significantly influenced by their demographics. This implies that a major factor influencing their access is their demography. Of the total, 49.6% said that these traits had some bearing on their access. 12.2% of respondents took a neutral view, indicating that they do not believe their demographics significantly affect their ability to acquire financial services. 12.9% of respondents think that their access to financial services is largely unaffected by their demographics. There is statistically significant heterogeneity in the respondents' perceptions of the impact of demographics on their access to financial services, as indicated by the p-values (<.001 or 1.000).

**Table 13**

Psychological barriers have impacted your ability to save, invest, or access credit?

| | Level | Count | Total | Proportion | p |
|---|---|---|---|---|---|
| Psychological barriers have impacted your ability to save, | Yes | 104 | 139 | 0.748 | < .001 |
| | No | 35 | 139 | 0.252 | < .001 |

**Interpretation:**

74.8% of respondents said that psychological obstacles affected their capacity to invest, save, or obtain credit. The data indicates that a noteworthy proportion of participants believe psychological concerns significantly impede their ability to manage their finances. 25.2% of respondents said psychological obstacles did not affect their capacity to borrow credit, save money, or make investments. Some people do not view psychological obstacles as a major hindrance to their financial behaviour, as evidenced by this minority.

## Study Contributions:

This study provides valuable insights into the factors influencing financial decision-making and access to financial services among respondents. It underscores the importance of addressing psychological barriers, providing personalised financial advice, improving financial literacy, and recognising the impact of social influences and cognitive biases. The findings can inform the development of targeted interventions and policies to enhance financial inclusion and confidence among diverse populations.

## Conclusion:

By the study, substantial psychological hurdles affect their financial activities. This underscores the need for fee structures that are transparent and individualised financial guidance. A robust inclination towards customised services and adaptable products highlights the need for flexible and reasonably priced solutions and reduced costs. Better financial decision-making depends on more financial education and transparency. Although expressed neutrality towards financial institutions, there were substantial concerns about fraud, expensive fees, and privacy. Financial decisions are heavily influenced by emotions and social variables, and loss aversion is a well-known phenomenon. Access to financial services is also influenced by demographic factors.

The information highlights how important it is for governments to enact measures that promote financial inclusion. All things considered, there is a palpable need for more individualised, open, and reasonably priced financial services, as well as improved communication and education to foster confidence and advance sound financial decision-making.

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