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Role of Financial Services in Economic Development: A Quantitative Investigation

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ABSTRACT

Globally, there is a diversity of perspectives on financial inclusivity. Because the demand for financial services differs from person to person as well as nation to nation. However, the vast bulk of scientists as well as intellectuals believe that 'financial inclusion is the widespread accessibility of all financial services to all underprivileged individuals at an economical pricing, predictive capacity, as well as sufficient dosage, as well as which should also be obtainable in appropriate procedures'; as well as 'financial inclusion includes the easy access of all individuals to the minimal level basic financial services'. The study's key components are the determinants as well as consequences of financial inclusiveness. The modern socioeconomic development ideology is based on widespread significant exposure to financial services, primarily for two reasons: (i)a large conceptual framework as well as literature review demonstrating the significance of a strong banking sector to support economic growth as well as poverty amelioration; as well as (ii)access to financial services, which can be viewed as a public good empowering involvement in the perks of a modern, market-based economy, in a comparable manner as is the case with education. As a result, financial inclusion/exclusion is seen as critical in terms of building a theoretical foundation as well as recognizing the fundamental reasons that contribute to a low degree of access to the financial sector. Sample of 271 people working in different financial services were considered to take participate in the survey of present study to know the role and significance of financial services in economic development. It is found that there is a significant role of financial services in economic development.

Keywords*:* Financial Services, Economic Development, Financial Inclusion, Productive Investments, Financial Intermediary.

Introduction

Finance is the paid financing of capital between various sectors of the economy, giving capital support to industrial upgrading as well as economic reorganisation, and serving as a crucial cornerstone for the market economy's long-term development. The interaction between economics and finance is getting increasingly intimate, as well as the concentration of wealth of the economy has become an inexorable tendency in the process of socio - economic growth. Intellectuals have always been interested in the subject of economic growth, as well as with the advent of the period of economic globalisation and the information economy, it is becoming extremely relevant to investigate the link between financial expansion as well as economic development.

According to **Sutton & Jenkins (2007)**, in a modernized democracy, economic growth is dependent on an effective financial sector that aggregates domestic savings as well as mobilises foreign capital for productive investments. Profitable efforts will go unutilized unless an adequate set of finance Institutions have been established. Ineffective financial firms will have the impact of punishing profitable investment, restricting the potential to grow the stock of competing equipment worldwide. As a result, there is a large drop in development in comparison to what would have been feasible with suitable regulations as well as market arrangements. Banking in India is of utmost importance. A study conducted in Haryana identified that rural people look for safety of funds even more than any other service parameter of banking **(Gupta and Mittal, 2008).**

Gurley & Shaw (1955) researched and concluded that the new knowledge of finance's relevance to economic improvement constitutes a substantial advance over prior models that depended solely on technological progress as the fundamental engine of growth. The current platform of economic success demonstrates that growth may be self-sustaining in the absence of technical innovation. Beneficial spill over connected with productive investments on the rest of the economy are the primary growth strategies. Externalities are benefits or costs that individuals or businesses do not get or endure. Since the concept of externalities not only explains the function of financial intermediation in producing economic growth, but also presents a possible role for government to play in the growing process.

Jung (1986) examined and stated that the phrase "financial exclusion" was first used to highlight the restricted accessibility to bank branches with the purpose of liberalising the financial sector. Along with supply-side issues, demand-side factors have a substantial influence on the amount of financial inclusion. If a significant section of the population is poor, there will be less demand for financial services since there would be no or little funds to deposit in banks. Likewise, sluggish or low development, which leads to little investment activity, leads to low demand for loans from banks as well as other formal financial organisations. Saving serves to reduce poverty as well as transfer people into better income levels, which increases demand for financial services for both saving as well as investing.

Literature Review

According to **Spears (1991)**, industries, markets, as well as enterprises rely on financial services to perform operations as well as enable trade. Obviously, the financial services sector plays a crucial role part in every nation's socioeconomic development. Furthermore, it plays a significant role in promoting financial inclusion. Such programmes are especially important for the poor and those living in poverty, as inclusion is the key to a better life. Fintech also plays an important role here, since digitization of services has provided underprivileged groups of society with accessibility to financial services that were previously unavailable to them.

Anwar & Nguyen (2011) investigated and stated that in many jurisdictions, the private financial sector controls a growing percentage of the market. With state banks being a minority, most of the industry is ill equipped to meet key financial criteria. For example, inadequate credit expansion generates a financing gap, and even when savings are sufficient, the system is not able to employ them effectively. This is where privatisation comes into play. Support mechanisms can be implemented with significant capital investment to better cater to credit demands and therefore decrease fiscal vulnerability.

Bilan, et al. (2019) examined and concluded that the financial system is critical to a nation's economic success. Financial systems finance companies as well as enterprises, resulting in more employment and, as a result, increased economic activities as well as domestic commerce. Financial intermediary contribute to increased investment effectiveness, which leads to increased growth in the economy. The financial system facilitates the kinaesthetic awareness of savings as well as investments in the economy. Financial institutions, such as banks, play an important role here. They enable depositors to put money in various deposits such as FDs as well as RDs by giving

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competitive interest rates. These funds are subsequently channelled by banks into loans for various commercial organisations involved in manufacturing and distribution. Banks aid in the distribution of resources among the economy's many sectors.

Jung (1986) conducted research and concluded that financial services are critical to economic growth as well as advancement. Banking, savings as well as investment, insurance, and debt and equity financing assist individual persons in saving money, protecting against uncertainties, as well as building credit, while allowing companies to start up, extend, maximize productivity, as well as engage in local as well as worldwide markets. For the poor, these services minimise vulnerabilities as well as empower individuals to manage the assets they have in ways that provide income as well as possibilities, so generating pathways out of hardship. Subsequently Paul, Mittal and Srivastav (2016) found that knowledge of product attracts the customers towards banks but unnecessary greetings etc is not liked by customers because they feel that in private banks, if a salesperson is greeting much, he/she would offer the product.

Berthelemy and Varoudakis (1996) examined and concluded that the financial services industry, which includes merchant banks, credit card firms, stock brokerages, as well as insurance firms, is the biggest in the world in terms of profitability. The primary focus of this research is on big domestic as well as global commercial banks. These huge enterprises have the competence, reputation, and geographic reach to have a substantial direct influence as well as to transform the whole markets work via involvement as well as precedent. They are employing more purposeful efforts to broaden economic opportunities through business models that employ as clientele impoverished persons as well as SMEs. They are also establishing efforts to strengthen human as well as organizational capacities, as well as using their knowledge and advantage to influence legislative framework in the places where they operate.

Adelakun (2010) researched and determined that financial services organisations have typically given little consideration to the poor since the poor, by necessity, have few assets. Casualness, a lack of knowledge, an inadequate infrastructure, as well as other impediments have strengthened the perception that servicing the poor cannot be financially successful, let alone a generator of innovation. Emerging, lower-cost economic models have begun to question this assumption, focusing on technological breakthroughs and the use of current retail channels, for example.

According to **Ibrahim (2007)**, financial services assist the poor in reducing vulnerability as well as managing their assets in ways that produce income and possibilities. Perhaps the most substantial contribution banks can make to broadening employment prosperity is to find ways to make financial services accessible to low-income individual people, business owners, as well as small businessperson through inclusive marketing strategies that are financially sustainable as well as thus offer the possibility for sustainable development as well as extent.

Bloch & Tang (2003) researched and said that the Role of Financial Services in Society project intends to assess the influence of fast development in technology-enabled development on the financial system's risk tolerance. The financial services business exists to provide a variety of fundamental social demands, ranging from payment facilitation to financial as well as economic resiliency. The financial sector has managed to embrace the advantages of technology more deliberately as well as profit on the opportunities it affords. This has aided in the acceleration of fast development, which is revolutionising the financial sector like never before. Service quality is the most important factor in banking. Be it any area, the quality has to be maintained otherwise customers would switch to another bank. Banks must maintain all the broad components of the service quality **(Srivastav and Mittal, 2016).**

Redmond and Nasir (2020) analysed and asserted that the financial system is at a crossroads. Over the last several decades, there has been substantial industry consolidation as well as the establishment of fundamentally significant financial institutions. Furthermore, technological advancements, regulatory uncertainty, as well as the present socioeconomic situation have acted as catalysts for new entrants and have begun a trend of entrenched decentralisation. Conventional

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financial institutions no longer sustain the whole value chain, thereby creating a struggle for end-user sovereignty. The employment of technology in finance is not new, nor are many of the goods as well as services supplied by new entrants.

According to **Ahmed & Ansari (1998)**, technological advances, ranging from cryptocurrencies to marketplace lending as well as big data solutions, hold enormous potential for a more effective as well as democratic financial system. Simultaneously, by generating new markets as well as eroding the lines between financial services as well as related sectors, technology-enabled innovations introduce new hazards to the financial system, both behavioural as well as regulatory, and have consequences for human capital. Risk management and opportunity maximisation are critical for sustaining society's faith in the financial system and achieving the maximum capabilities of technology-enabled breakthroughs as they acquire size over time.

Spears (1992) examined and concluded that innovation drives economic growth and is a primary driver of business model change. Similarly, to other industries, good economic impact innovation should be promoted to prosper, while less viable enterprises should be permitted to fail. The long-term success of incumbent players as well as new entrants who use technology-enabled innovation is dependent on retaining public trust and avoiding growing threats. This necessitates public-private collaboration across all system actors. Based on the research findings of the interviews, they have presented a number of proposals for the private sector and financial regulators aimed at ensuring monetary sustainability as well as supporting technology-enabled development.

Patrick (1966) researched and concluded that the availability of financial services enables a nation to improve its economic position, leading in improved output as well as economic growth in all areas. The advantage of economic expansion is reflected in the form of economic prosperity, in which the person enjoys a greater quality of living. It is here that financial services enable a person to acquire or receive numerous customer items via hire purchase. A number of financial institutions profit because of this approach. The presence of these financial institutions encourages investment, manufacturing, and saving, among other things. The availability of financial services increases demand for items, as well as the manufacturer increases investment to match customer demand. At this point, the financial services industry comes to the aid of the investor, such as a merchant banker, via the fresh issue market, allowing the manufacturer to raise funds. Advertising in the mass media is the most effective promotional method in the context of banking for mass reach. However, when it comes to the most convincing method, then personal selling leads the promotional methods. Banking customers have started liking the cash backs and sales promotion schemes to a large extent **(Gupta and Mittal, 2012).**

Kim, et al. (2018) reviewed and indicated that financial services such as mutual funds offer several opportunities for various sorts of saving. Indeed, several sorts of investment possibilities are made available for the benefit of retirees as well as the elderly, so that they can be assured of a good return on investment with little risks. Numerous reinvestment alternatives are available to consumers who want to expand their money. The government's regulations manage the functioning of numerous financial services in such a manner that the public's interests are served by these financial organizations are well-protected. The establishment of insurance firms decreases the risks associated with both financial services as well as manufacturers.

Objective

1. To know the factors that determines the role of financial services in economic development.
2. To know the significance of financial services in economic development.

Research Methodology

Sample of 271 people working in different financial services were considered to take participate in the survey of present study. Structure questionnaire was used to know the role and significance of financial services in economic development. The primary data for this quantitative investigation was collected through "random sampling method" and the "exploratory factor analysis" was used to analyse and evaluate the data.

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Findings

Table 1 is showing demographic details of the respondents. It is observed that total 271 people were surveyed that includes male (60.2%) and female (39.8%). The respondents are of different age groups like Below 32 yrs (29.9%), 32-47 yrs (35.8%) and rest (34.3%) are above 47 yrs of age. 15.1% of the respondents are from the company that offers financial services as mutual funds, 19.2% are from banking sector, 18.1% from insurance companies, 24.7% in stock market, 14.4% are into wealth management financial services and rest 8.5% provides some other financial services.

Table 1 Demographic Details

Variable	Respondent	Total Percentage
Gender		
Male	163	60.2
Female	108	39.8
Total	**271**	**100**
Age profile		
Below 32 years	81	29.9
32-47 years	97	35.8
Above 47 years	93	34.3
Total	**271**	**100**
Occupational Sector		
Mutual Funds	41	15.1
Banking	52	19.2
Insurance	49	18.1
Stock market	67	24.7
Wealth management	39	14.4
Others	23	8.5
Total	**271**	**100**

“Exploratory Factor Analysis”

“Table 2 KMO and Bartlett's Test”

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.879
Bartlett's Test of Sphericity	Approx. Chi-Square	3638.649
	df	120
	Sig.	.000

In the table above (Table 2) KMO measure of sampling adequacy is found to be .879 and the value in the significant is below 0.05.

“Table 3 Total Variance Explained”

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.400	46.252	46.252	4.076	**25.474**	25.474
2	1.897	11.853	58.105	3.115	**19.467**	44.941
3	1.840	11.500	69.605	3.003	**18.771**	63.712
4	1.276	7.972	77.577	2.218	**13.865**	**77.577**
5	.685	4.282	81.859			
6	.609	3.807	85.666			
7	.415	2.594	88.260			

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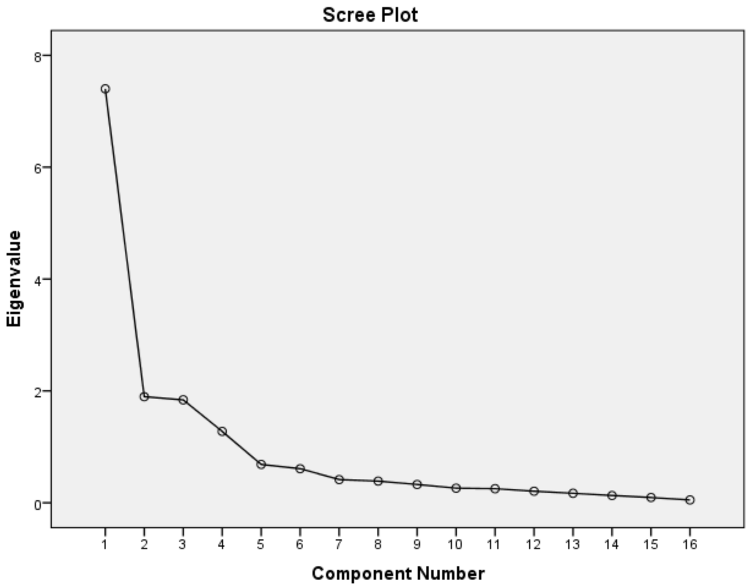
8	.387	2.420	90.680			
9	.328	2.047	92.727			
10	.261	1.634	94.361			
11	.252	1.574	95.935			
12	.207	1.292	97.227			
13	.170	1.062	98.289			
14	.130	.811	99.100			
15	.094	.585	99.685			
16	.050	.315	100.000			

"Total Variance Explained" is demonstrated in table above (Table 3) where % of variance from factor 1-4 is shown as 25.474, 19.467, 18.771 and 13.865 percent respectively and all the four factors explain total 77.577 percent of the variance.



"Figure 1 Scree Plot"

Scree plot (Figure 1) is the graphical presentation of the Eigen value found from "Total Variance Explained" (table 3). An elbow at 4 components is shown in scree plot which depicts that total 4 Factors have been extracted.

"Table 4 Factors, Factor Loading and Factor Reliability"

S. No.	Statements	Factor Loading	Factor Reliability
	Economy growth and balance		.952
1.	Financial services help to diversify the capital market	.855	
2.	Encourages different sectors for investment	.843	
3.	Facilitates the market to grow	.842	
4.	Support government and private sector to balance the economy in sudden situation of loss	.828	
5.	Provide credit and loan to support the economy development	.794	
	Entrepreneurship		.896
6.	Financial services provide fund for entrepreneurs	.895	
7.	Encourage investor to invest in new venture of entrepreneurs	.888	
8.	Facilitate new ideas of entrepreneur	.757	

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9.	Promotes financial training and business management training for entrepreneurs	.706	
	Infrastructure and Business growth		.878
10.	Provides "financial assistance and guaranteeing losses" to new business	.861	
11.	Offers loans for business to expand and grow	.839	
12.	Encourage private sectors to invest in infrastructure companies	.834	
13.	Connects people with different segments of business and infrastructure through financial services	.675	
	Employment		.760
14.	Creates different kind of jobs in different sectors	.855	
15.	Employ people on different finance sectors as per their skills (management, accounting, IT etc.)	.800	
16.	Finance companies hire skilled talents for their work	.741	

Development of the factors

Economy growth and balance is the first factor that include the variables like financial services help to diversify the capital market, encourages different sectors for investment, Facilitates the market to grow, Support government and private sector to balance the economy in sudden situation of loss and Provide credit and loan to support the economy development. Second factor is named as Entrepreneurship which consist of variable like financial services provide fund for entrepreneurs, encourage investor to invest in new venture of entrepreneurs, facilitate new ideas of entrepreneur and promotes financial training and business management training for entrepreneurs. The third factor is named as Infrastructure and Business growth which includes the variables like Provides "financial assistance and guaranteeing losses" to new business, offers loans for business to expand and grow, encourage private sectors to invest in infrastructure companies and Connects people with different segments of business and infrastructure through financial services. Fourth and the last factor is Employment which consist of variables like Creates different kind of jobs in different sectors, employ people on different finance sectors as per their skills (management, accounting, IT etc.) and Finance companies hire skilled talents for their work.

Reliability of the factors

"Table 5 Reliability Statistics"

Cronbach's Alpha	N of Items
.913	16

Factor wise (1-4) reliability is shown in table 4 above as .952, .896, .878 and .760 respectively and total reliability statistics (table 5) is shown above which says that total reliability of all the 16 items is .913.

<u>Conclusion</u>

The financial services industry is crucial to the modern economy. The financial system is a collection of organisations that provide key activities such as enabling transactions, mobilising savings, distributing capital funds, monitoring enterprises and managers, as well as minimising risk. Opening up the financial sector to international involvement as well as competitiveness not only increases the allocation of financial services to local customers – both people and businesses – but may also help reduce the expense of these services as well as enhance their performance. Furthermore, it appears that the financial industry has a greater and favourable influence on developing countries than on industrialised nations in most circumstances. Given the current advancements in econometric methodology and the usage of proxies such as financial indexes, it is critical to employ in forthcoming studies. This will aid in determining the impact of the financial services

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industry on economic growth in a more sophisticated manner, rather than relying on previous proxies and approaches.

The study concludes that Economy growth and balance, Entrepreneurship, Infrastructure and Business growth and Employment are the factors that determines the role of financial services in economic development. It is also found that there is a significant role of financial services in economic development.

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