

# FINANCIAL INCLUSION: CONSUMER DRIVERS AND BARRIERS

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**Abstract:** Financial inclusion is crucial for economic growth in developing countries like Kenya, as it improves access to financial services for marginalized individuals and businesses. The advent of mobile technology, particularly platforms like M-Pesa, has revolutionized financial services, making transactions, savings, and credit more accessible. This encourages users to engage with formal financial systems, enhancing their economic conditions and enabling business growth. Social networks play a key role in influencing consumer behavior, as community adoption of financial services creates urgency for others to participate. The Kenyan government supports financial inclusion through policies like the National Financial Inclusion Strategy, which includes financial literacy programs and partnerships with the private sector. As financial literacy improves, consumers better understand the benefits of financial inclusion, leading to increased confidence in using these services. Many potential users of financial services lack trust in banks due to past experiences with corruption and inefficiency, leading them to seek informal alternatives. In Kenya, geographic challenges, especially in rural areas with limited banking infrastructure, further complicate access. While mobile money has improved accessibility, some still lack reliable internet or mobile connectivity. Cultural beliefs often favor informal savings groups over formal banks, and gender norms can restrict women's financial autonomy. Additionally, the costs associated with financial services, such as transaction fees, can deter low-income individuals from participating. The complexity of financial products can also create confusion, making clear information essential to encourage engagement.

**Keywords:** Financial inclusion; Consumer Drivers, Consumer Barriers.

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## 1. INTRODUCTION

### 1.1 The Concept of Financial Inclusion

The concept of financial inclusion refers to the accessibility and availability of financial services to all individuals and businesses, particularly those who are traditionally underserved or excluded from the formal financial system (Sanderson, Mutandwa & Le-Roux, 2018). Similarly, Dev (2022) observe that the concept of financial inclusion encompasses a wide range of financial services, including banking, credit, insurance, and investment products, and aims to ensure that everyone, regardless of their socio-economic status, has the opportunity to participate in the financial system. Therefore, financial inclusion is a multifaceted concept that seeks to ensure that all individuals and businesses have the opportunity to participate in the financial system.

Camara and Tuesta (2020) observe that financial inclusion plays a significant role in shaping the behaviors and decisions of target consumers by providing them with access to essential financial services that empower them to manage their finances more effectively. According to Parvin and Panakaje (2022), when individuals have access to banking services, credit, insurance, and investment opportunities, they are more likely to engage in financial planning and make informed decisions regarding their spending, saving, and investing. Therefore, financial inclusion leads to more informed and empowered consumers who can contribute positively to their communities and the economy as a whole.

Financial inclusion enhances consumers' ability to save. With access to savings accounts and other financial products, individuals can set aside money for emergencies, future purchases, or long-term goals. This ability to save not only fosters

a sense of security but also encourages consumers to think critically about their financial futures, leading to more deliberate and strategic decision-making (Mader, 2018). Ozili (2020) observe that access to credit allows consumers to make significant purchases, such as homes or vehicles, which they might not be able to afford upfront. This access can lead to increased consumer confidence and spending, as individuals feel more empowered to invest in their lives and futures. Moreover, responsible borrowing can help consumers build credit histories, which can further enhance their financial opportunities.

Menon (2019) observe that financial inclusion promotes entrepreneurship by providing small business owners and aspiring entrepreneurs with the necessary capital to start or expand their businesses because when individuals can access loans and financial advice, they are more likely to take risks and innovate, contributing to economic growth and job creation. Thus, influencing consumer behavior, as individuals may become more inclined to support local businesses and invest in their communities. Cohen and Nelson (2021) indicate that financial literacy often accompanies financial inclusion initiatives. As consumers gain access to financial education resources, they become more informed about managing their finances, understanding interest rates, and recognizing the importance of budgeting. This knowledge empowers them to make better financial decisions, avoid debt traps, and seek out products that align with their needs and goals.

### **1.2 Statement of the Problem**

In Kenya, while there have been significant strides in improving financial inclusion, challenges remain, particularly for certain demographics and regions. As of Central Bank of Kenya 2023 report indicate that approximately 83% of adults in Kenya have access to formal financial services, primarily driven by mobile money platforms like M-Pesa. However, this still leaves a significant portion of the population without adequate access. The World Bank's Global Findex report of 2023 indicates that about 17% of adults in Kenya remain unbanked, meaning they do not have an account with a financial institution. Women in Kenya are less likely to have access to financial services compared to men. The gender gap in financial inclusion is estimated at around 10%, with women facing barriers such as cultural norms, lack of collateral, and lower financial literacy. The report further indicates that financial inclusion is significantly lower in rural areas compared to urban centers. While urban areas may have financial inclusion rates exceeding 90%, rural areas can see rates as low as 60%. This disparity is often due to the lack of physical banking infrastructure and limited access to technology. Therefore, there is need to investigate consumer drivers and barriers to financial inclusion in Kenya.

### **1.3 Objectives of the study**

- i. To examine consumers drivers on financial inclusion
- ii. To establish investigate consumers drivers on financial inclusion

### **1.4 Financial Inclusion: Consumer Drivers**

Bashiru, Bunyaminu, Yakubu, and Al-Faryan (2023) conducted a study on the factors influencing financial inclusion in Sub-Saharan Africa. Employing a dynamic panel methodology, the research analyzes the determinants of financial inclusion in the SSA region from 2000 to 2017. The findings indicate that both financial globalization and literacy rates have a significant positive effect on financial inclusion. Conversely, the growth of the rural population was found to have a substantial negative impact on financial inclusion. Additionally, the study indicates that while bank profitability, bank stability, and economic growth negatively affect financial inclusion, these effects are not statistically significant. The positive relationship between financial globalization and financial inclusion carries important policy implications for countries in Sub-Saharan Africa. Specifically, enhancing the integration of local financial systems with global financial markets may support efforts to promote financial inclusion in the region.

Uddin and Begum (2023) conducted a study on financial inclusion, specifically examining the factors that affect customer adoption of mobile banking services in Bangladesh. A total of 320 questionnaires were distributed to customers of the leading mobile banking providers in the country, with 315 responses received; however, only 300 were deemed suitable for analysis. The research identified that perceived risk, relative advantage, trust, and convenience are the primary factors influencing individuals' willingness to adopt mobile banking, ranked in that order. The data was analyzed using reliability tests, correlation, and multiple regression analysis through SPSS, employing a 5-point Likert scale for each variable. The results of this study are expected to have significant implications for the Bangladeshi economy, particularly within the financial sector, and will also provide valuable insights for policymakers and bank management in formulating strategies and policies aimed at enhancing participation and success in the banking industry of Bangladesh.

Werake and Dharmadasa (2024) examined the link between customer perception and financial inclusion among urban low-income households in Sri Lanka. They defined financial inclusion using six supply-side variables: outreach, penetration, availability, accessibility, technology, and trust, based on the theory of planned behavior. Using a Likert scale, they assessed individual perceptions of financial inclusion through a semi-structured survey of 383 households in Colombo and Kolonnawa conducted in July and August 2022. Data analysis employed a partial least squares structural equation model, revealing a significant positive relationship between customer perception and accessibility, availability, penetration, and trust, with accessibility having the strongest influence.

### 1.5 Financial Inclusion: Consumer Barriers

Ulwodi and Muriu (2017) examined the obstacles to financial inclusion in Sub-Saharan Africa by utilizing the 2014 Global Findex dataset from a demand-side perspective. They employed a two-level model that incorporates individual households within country-level variables. The findings indicate that lower income levels correlate with reduced access to formal banking accounts. Additionally, literacy rates significantly influence account ownership. The results further demonstrate that as individuals age, they are likely to transition between different types of accounts. The possession of a debit card is associated with a higher likelihood of account ownership. Proximity to the nearest financial services also emerges as a critical barrier to account ownership. These challenges have the potential to lead to market failures, necessitating appropriate policy interventions to stabilize the financial market.

Kaligis, Tewel, Maramis, and Mangantar (2018) conducted a study on the profile of financial inclusion, focusing on its determinants and barriers. The objective of the research was to analyze the factors that affect financial inclusion in North Sulawesi. The findings indicate that age and gender do not have a significant impact on financial inclusion, particularly concerning the dependent variable of formal accounts. In addition, other variables such as the status of formal accounts and the availability of automatic teller machine (ATM) cards also do not show significant influence. Education, while related to dependent variables, exhibits different determinants. Specifically, the number of formal accounts and ATM cards significantly affect financial inclusion, whereas the model concerning the status of formal accounts does not. Regarding barriers, the study identifies six key factors that hinder financial inclusion: inadequate business management, negative experiences with banks, unfavorable business conditions, religious and familial influences, and the complexity of credit documentation requirements.

Njanike and Mpofo (2024) examined the factors influencing financial inclusion to promote social inclusion in various African countries. Their study found a strong positive correlation between social and financial inclusion, highlighting the importance of financial services in reducing poverty and social exclusion. They created a comprehensive dataset by combining samples from the Democratic Republic of Congo, Eswatini, Kenya, and South Africa, using data from FinScope surveys, which focus on end-users of financial services. Probit regression models identified key factors affecting financial inclusion, including age, education, marital status, access to bank branches, location, internet access, income, proof of residence, social networks, financial advice, gender, and connectivity.

### 1.6 Research Methodology

This study employed a desk top review of empirical literature to explore the factors influencing consumer financial inclusion. The methodology involved identifying key themes such as access to financial services, affordability, financial literacy, and technology's role. A systematic search of academic databases like JSTOR and Google Scholar was conducted to gather relevant peer-reviewed articles. The selected studies were analyzed using thematic synthesis to categorize drivers and barriers to financial inclusion, highlighting factors like socio-economic status, education, cultural attitudes, and regulatory impacts. Additionally, a critical evaluation of the methodologies in the reviewed studies assessed their strengths and limitations, revealing gaps for further research.

### 1.7 Data Analysis Results

The research identified key factors influencing consumer behavior regarding financial inclusion;

The socioeconomic status was a critical determinant, with lower-income individuals facing barriers like limited access to banking, low financial literacy, and distrust in institutions. Higher education levels correlated with greater confidence in using financial services, suggesting that educational initiatives could improve financial inclusion.

The cultural factors also significantly impacted behavior, as traditional beliefs in some communities may deter engagement with formal financial systems. Understanding these cultural nuances is vital for developing effective strategies.

The role of technology was emphasized, particularly mobile banking and digital services. Tech-savvy consumers are more likely to adopt these innovations, though a digital divide exists for older generations and those in rural areas.

The trust and security were crucial, as many potential users expressed concerns about personal information safety and institutional reliability. Building trust through transparency and security measures is essential for increasing participation in financial systems.

### 1.8 Conclusions

The study concludes that understanding consumer motivations is crucial in promoting financial inclusion, as these motivations can significantly influence individuals' decisions to engage with financial services. Consumer motivations can be broadly categorized into intrinsic and extrinsic factors: Intrinsic Motivations include personal values, beliefs, and aspirations that drive individuals to seek financial services. For instance, a desire for financial security, the aspiration to save for future goals, or the need for financial literacy can motivate individuals to engage with financial institutions and extrinsic motivations are external factors that influence consumer behavior, such as social norms, peer pressure, and marketing strategies. For example, if a community values entrepreneurship, individuals may be motivated to access financial services to start their own businesses.

The study also concludes that understanding consumer motivations also involves recognizing the barriers that prevent individuals from accessing financial services. Many individuals may not be aware of the financial products available to them or how to access them. A lack of trust in financial institutions can deter individuals from seeking financial services. Cultural beliefs and practices can influence consumer motivations. For instance, in some cultures, saving money may be viewed as a communal responsibility rather than an individual one. The rise of mobile banking and fintech solutions has made financial services more accessible.

### 1.9 Policy Recommendations

The study recommends that there is need for financial institutions to;

- Conduct workshops that educate consumers about financial products, budgeting, saving, and investing and tailor these programs to different demographics to ensure relevance.
- Offer training on how to use digital financial services, including mobile banking and online payment systems, to increase comfort and confidence in using these tools.
- Implement programs that offer bonuses or interest rate boosts for saving money, such as matched savings accounts or prize-linked savings.
- Encourage existing customers to refer friends and family by providing rewards for successful referrals, thereby expanding the user base.
- Develop financial products that cater to the specific needs of underserved populations, such as low-fee accounts, microloans, or flexible repayment options.
- Design digital platforms that are intuitive and accessible, ensuring that even those with limited technological skills can navigate them easily.
- Collaborate with community organizations, Non-Governmental Organizations (NGOs), and local businesses to promote financial inclusion initiatives and reach underserved populations.
- Leverage mobile technology to provide banking services to those without access to traditional banking infrastructure, especially in rural areas.

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