

# THE ROLE OF FINANCIAL INCLUSION CONTRIBUTION ON THE FINANCIAL PERFORMANCE AT COMMERCIAL JORDANIAN BANKS

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## ABSTRACT

*The study aims to demonstrate the role of Financial Inclusion FI on the financial performance at commercial Jordanian banks. The study used the descriptive approach in dealing with the theoretical side and the analytical method in the applied side using a questionnaire. The study recommended that the Central Bank of Jordan should follow up the implementation of the national strategy and develop legislation and regulatory systems to develop methods for obtaining financial services for the commercial Jordanian banks commercial Jordanian banks. The study emphasized the need to facilitate legal and regulatory procedures to stimulate the use of modern and innovative technologies such as mobile phones and financial wallets in financial services, as well as targeting projects that are not currently serviced by the banking sector to allow access to funds at the right place and time at a reasonable cost.*

**Keywords:** Financial Inclusion (FI), Commercial Jordanian Banks, Financial Performance

## INTRODUCTION

The establishment and development of commercial Jordanian banks is the responsibility of individuals in all countries of the world, given the economic and social importance of all enterprises as one of the most important economic pillars in most countries of the world, and states have a responsibility to support these projects and ensure their continuity by doing their best to support the process directly or indirectly (Zarrouk, et al., 2020).

The most countries have recognized that the main success of these projects is the greater overlap between different project sizes; As it represents about 90% of the existing projects in the private sector, 80% of the workforce, 80% of the GNP, 75% of the volume of exports, and 10% of the industrial production (AMF, 2015), it is from This is expected to play a prominent role in reducing unemployment in the future, as it contributes to creating 4 out of 5 new job opportunities in the public sector "<https://www.worldbank.org/en/topic/smeфинанс>", commercial Jordanian banks access to financial services and fill their financing gap with Affordable costs. Many countries of the world have launched financial strategies with the support of international institutions such as the Alliance for Financial Inclusion (AFI) and the International Monetary Fund (IMF), and at the Arab level, the Arab Monetary Fund (AMF) and the Council, Governors of central banks and Arab monetary institutions.

### The Significance of the Study

It comes from commercial Jordanian banks role in promoting FI by enhancing their financial performance due to the size in the Jordanian economy; which affects 95% of the size of the business sector, 70% of employment opportunities, and contributes to 40% of GDP (CBJ, 2017) which in

turn leads to their growth and development, improving performance, and increasing contribution to economic growth (Zarrouk, et al., 2020).

### **The Study Problem**

It is indicate to the limited access of commercial Jordanian banks to financial services and the reluctance from banks in providing them with finance, Thus the limited use of FI programs adopted by the CBJ, which limits their financial performance, also there is have shortage studies explained the affects their financial performance and the stimulation of investing in them.

### **The Study Population**

It consists of employees of commercial Jordanian banks, while, the sample consists of banks financial managers due to of their experience, knowledge of commercial Jordanian banks conditions, which enables them to answer the questions with professionalism and high skill.

The study used the descriptive approach in dealing with the theoretical side and the analytical approach in the applied side using a questionnaire.

### **Previous Studies**

The impact of commercial Banking in the FI Report for commercial banks”, which aimed to demonstrate the extent of the commercial banking contribution in the enhancement of FI. In Sudan, he found that financing forms that are based on participation are suitable for financing this type of commercial Banking projects, principally, because they suffer from the traditional financing (Munira, 2019).

The effect of commercial Banking and FIs on financial performance ", where, attempt to analyze policies on improving opportunities for groups deprived of financial services to obtain and use appropriate commercial financial products. The research used rules and guidelines of international and regional bodies that are concerned with financial and banking inclusion issues such as G20, The study has provided a general guide to the most influential procedures in most countries and times; to help formulate an appropriate strategy for the contribution of commercial finance to FI (Gharbi, 2018).

The associations of financial performance with economic growth, financial and economic stability, and inequality? It presented three main policy-related results. The first result is related to increased financial performance from economic growth which would increase access for of commercial Banking, families, and women to various banking services, which would lead to higher growth. Also, they showed that the proof on the risks of the increment of financial stability when access to credit is expanded without adequate supervision and leads to a decline in financial stocks, and the erosion of temporary stocks is greater in countries with poor supervision, while countries with strong supervision achieve some financial advantages from increased integration (Sashay, 2015).

## LITRERATURE REVIEW

### FI Concept and Definition

Pham & Done (2020) mentioned that the FI depends on facilitating access to financial services to all organizations, increasing their ability to benefit from, and encouraging them to manage their finances and savings, in addition to obtaining credit facilities and insurance against unexpected accidents. The main concept encompasses the greatest interest in the poor and individuals with limited income, accessing to individuals and commercial banks as well as the interest in creating new job opportunities and thus raising the rate of financial performance (ILAhIYAH et al., 2021) It is clear from the above that the main pillars of FI are providing and using financial products and services of suitable quality, with effective control and protection of consumer rights which aimed to achieve financial stability.

### Financial Inclusion and Financial Performance

Birgitta, et al., (2020) explained that the Financial performance enhances with financial inclusion because it facilitates individuals and institutions access to financial services more easily, especially services that have not been used before. Access to financial services has become easier and faster in light of modern digital services, although the geographical obstacles and their absence, Infrastructure that covers various financial services.

### FI in Jordanian Banks

The CBJ undertakes seeks in developing the infrastructure of the financial system by focusing on two main perspectives: strengthening FI dimension, and strengthening their system dimension. Therefore CBJ launched the national strategy for FI with the participation of the public and private sectors contained by flexible system and framework through the secretariat of the National Committee for Inclusion. this focuses on gender equality, providing commercial banks access to financial services, developing a modern and safe national payment system, reducing costs and risks, increasing the efficiency of access to payment systems, building a comprehensive framework to protect the financial consumer, and setting policies to provide reliable data sources to improve the data quality (<http://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=27>)

### The Role of Commercial Jordanian Banks in Promoting FI

Commercial Banks in Jordan currently has almost 105 branches and offices, and 232 ATMs to serving customers all over Jordan. Its accounts for 16.9% of banking in Jordan, In terms of the total number of deposits, holds 20% of the total banking. Commercial investments which represent 24.5% of all investments and lending of conventional and commercial banking management (<http://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=27>).

### The Positive Effects of Launching a FI Strategy on Commercial Banks

Improving access to finance CBJ supported SME's by providing diversified and targeted financing programs, enhancing loan terms to align with the financing programs in place with commercial banks by signing a restricted investment agency agreement between CBJ and

commercial banks. Also it had supported in the restructure the business of the Jordanian Loan Guarantee Company and the increment in its capital, restructured the work of the Jordanian Loan Guarantee Corporation by increasing its capital, developing its working procedures and the scope of its dealings (<http://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=27>). Furthermore, Protecting commercial banks as Financial Consumers: CBJ has issued instructions for dealing with clients in a fair and clear manner No. (56/2012) in order to enhance its role in protecting commercial banks as financial consumers, and it has established an independent department for the protection of the financial consumers.

## METHODOLOGY

### Study Variables

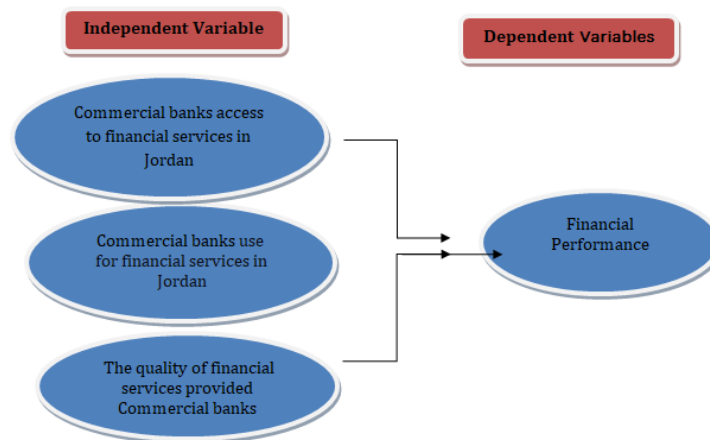
#### Dependent Variable

Financial performance in Jordan.

#### Independent Variables

1. Commercial banks access to financial services in Jordan.
2. Commercial banks's use for financial services in Jordan.
3. The quality of financial services provided to Commercial banks in Jordan.

### Study Model



**FIGURE 1**  
**OPERATIONAL DEFINITIONS**

### Financing Inclusion

The process of ensuring receive to appropriate financial products and Services needed by all sections of the sector in general and vulnerable groups such as weaker Sections and low income groups (Hassan, 2006).

## Projects' Access to Financial Services

The ability of Commercial banks of using various financial services and products provided by official institutions, such as savings, payment, credit, insurance, and financial transfers, provided that the cost of access to these services is reasonable and is done in a manner that meets their needs and helps improve the level of financial performance safely and sustainably (AFI, 2013).

## The Use of Financial Services

The impact of regularity and frequency with the use of financial services provided by banking organizations by customers over a specific period and time (Shanabi, 2018).

## Quality of Financial Services

The elements affecting the quality and type of services provided such as cost, the effectiveness of the provided protection, the effectiveness of the compensation mechanism, the transparency of market competition, and consumer confidence (Ajour, 2017).

## ANALYSIS AND DISCUSSION

### Testing Data's Degree of Reliability (Cronbach's alpha)

The test results are shown in Table (1) Below indicate that the value of the alpha coefficient for all questions equals (80%), which means that the results of the questionnaire and reassurance can be approved to a good degree of credibility to achieve the research objectives.

<b>No. of Items</b>	<b>Cranach's Alpha</b>
20	85

## Data Analysis

### Hypotheses Test

#### Main Hypothesis

*H<sub>0</sub> There is no significant statistical relationship at the significance level of  $\alpha \leq 0.05$  between the dimensions of FI and financial performance in commercial banks in Jordan.*

It is clear from the analysis of the arithmetic mean for the 22 combined questions that measure this variable has arrived at (3.787) degrees, and this exceeds the default mean of (3). The mean standard deviation of (0.982480) ranged between (1.21-0.756) and this indicates that the financing needs of small projects can be met depending on the three dimensions of FI.

To illustrate this, One - Sample t Test was used to find out whether to choose the nihilistic hypothesis or the alternative hypothesis, and it turned out that the calculated value of t is greater than its tabular value based on the level of significance (0.05), as shown in Table (2), and that the rule of decision indicates the validity of the nihilistic hypothesis only if the calculated value of t is less than its tabular value and the invalidity of the nihilistic hypothesis if the opposite is true. Therefore, we refuse the nihilistic hypothesis, and accept the alternative hypothesis.

Arithmetic Average	Standard Deviation	Calculated t Value	Statistical Significance (Sig.)
3.787	0.98248	8.896	0

### First Sub Hypothesis

*H1 There is no significant statistical relationship at the significance level of  $\alpha \leq 0.05$  between commercial banks access to financial services and financial performance for these projects.*

By analyzing the questions in the first dimension and as shown in Table (3), shows that the mean for the answers is (3.756) and that exceeds the hypothetical mean. The values of the standard deviations (1.21–0.899) indicate the convergence of the views of the respondents, and this indicates that commercial banks access to financial services with a confidence level of 95%.

First Focus: Access of Financial Services		St. Deviation	Average	Level
1	The uncertainty in the ability to meet financial obligations is a barrier for commercial banks against accessing the needed financing.	1.21	3.5478	Medium
2	The low return on loans is a barrier for commercial banks against accessing the needed financing	0.89978	3.8783	Medium
3	The size of the business is a barrier for commercial banks against accessing needed financing.	1.02039	3.5217	Medium
4	Weak guarantees are barriers for commercial banks against accessing the needed financing.	0.91057	3.8261	Medium
5	Poor business experience is a barrier for commercial banks against accessing the needed financing.	1.0051	3.8174	Medium
6	The lack of familiarity with banking laws and regulations is impairment to commercial banks against accessing the needed financing.	1.03523	3.7391	Medium
7	Failure to maintain regular accounting books that show the actual results of the activity is impairment to commercial banks against accessing the needed financing.	1.06085	3.9217	Medium
8	Lack of familiarity with marketing strategies and management techniques is impairment to commercial banks against accessing the needed financing.	1.09538	3.9565	Medium
		1.02947	3.7561	Medium

To find out whether to choose the nihilistic hypothesis or the alternative hypothesis one - Sample t Test was used, and it turned out through the analysis results as shown in Table (4) That the arithmetic average of the answers is greater than the assumed arithmetic average, and that the calculated value of t is greater than its tabular value on the level of significance (0.05), as per the rule of decision we accept the nihilistic hypothesis only when the calculated value of t is less than its tabular value. Therefore, we refuse the nihilistic hypothesis, and accept the alternative hypothesis.

<b>Table 4 ANALYSIS RESULTS</b>			
<b>Arithmetic Average</b>	<b>Standard Deviation</b>	<b>Calculated t Value</b>	<b>Statistical Significance (Sig.)</b>
3.7561	1.015	8.18	0

### **Second Sub-Hypothesis**

*H2 There is no significant statistical relationship at the significance level of  $\alpha \leq 0.05$  between the use of financial services and financial performance for commercial banks.*

It is clear from the analysis of the second dimension questions that is evident in Table (5) That the mean for the answers to the questions is (3.776) percent which exceeds the default mean, and the values of the standard deviations for the answers that ranged between (1.15 – 0.734) indicate that the use of financial services in SME's projects will bridge the financing gap for these projects.

<b>Table 5 SECOND DIMENSION QUESTIONS</b>				
<b>Second Focus: SME's Use of Financial Services</b>		<b>St. Deviation</b>	<b>Average</b>	<b>Level</b>
1	Increased financial awareness and education programs increase the use of financial services in commercial banks	1.00775	3.8609	Medium
2	The cost and procedures for opening accounts, required documents, and fees charged are obstacles for commercial banks for using financial services.	1.10474	3.087	Medium
3	Lack of trust in commercial banks and financial institutions are obstacles for commercial banks in the use financial services.	1.15093	3.2522	Medium
4	Automating financial services and providing electronic financial services contribute to an increment in the use of financial services in commercial banks.	0.92618	3.8087	Medium
5	Failure in possessing the necessary financial culture and the inability to open bank accounts are obstacles for commercial banks in the use financial services.	0.73401	4.0783	Medium
6	Advertising and promoting the range of banking branches increases the use of financial services in commercial banks.	0.99449	3.8957	Medium
		0.99968	3.6638	Medium

To find out whether it is possible to accept the nihilistic hypothesis or the alternative hypothesis, One - Sample t Test was used and the results of the analysis as shown in Table (6) that the arithmetic average of the answers to these questions exceeds the assumed arithmetic average and that the calculated value of t is greater than the tabular value as per the significance level (0.05), and according to the decision rule, we accept the nihilistic hypothesis if the calculated value of t is less than its tabular value. Therefore, we refuse the nihilistic hypothesis, and accept the alternative hypothesis.

Arithmetic Average	Standard Deviation	Calculated t Value	Statistical Significance (Sig.)
3.6638	0.999	7.706	0

### Third Sub-Hypothesis

*H3 There is no significant statistical relationship at the significance level of  $\alpha \leq 0.05$  between the quality of financial services provided to commercial banks and financial performance for these projects.*

It is evident from the analysis of the third dimension questions mentioned in Table (7) that the mean for the answers to the questions is (3.850) degrees more than the default mean, as indicated by the values of the standard deviations for the answers, which ranged between (1.041 - 0.732) and this indicates the quality of financial services introduced to commercial banks in Jordan and bridges the financing gap for these projects.

Third Focus: Quality of Services Provided for commercial banks		St. Deviation	Average	Level
1	Transactions made through official accounts contribute in increasing the quality of financial services provided.	0.9287	3.913	Medium
2	Converting cash payments into payments through bank accounts contributes in increasing the quality of financial services provided.	0.85902	3.7739	Medium
3	The development and innovation of various banking and financial products contributes in increasing the quality of financial services provided.	1.04121	3.6435	Medium
4	Policies and programs that support transferring savings to the formal financial systems contribute in increasing the quality of financial services provided.	0.73262	3.9391	Medium
5	Availability of information about commercial banks contributes in increasing the quality of financial services provided.	0.9809	3.9478	Medium
6	The adoption of policies to enhance FI by regulatory and supervisory institutions contributes in increasing the quality of financial services provided.	0.87703	3.9478	Medium
7	The appropriate guarantees for the granted funds contribute in increasing the quality of financial services.	0.90384	3.913	Medium
8	The application of the principle of risk returns in funding commercial banks contributes in increasing the quality of financial services provided.	0.98579	4.0435	Medium
		0.92259	3.8502	Medium



### Forth Sub-Hypothesis

*H4 There is no significant statistical relationship at the significance level of  $\alpha \leq 0.05$  between financial Inclusion provided to commercial banks and financial performance for these projects.*

It is evident from the analysis of the third dimension questions mentioned in Table (8) that the mean for the answers to the questions is (3.890) degrees more than the default mean, as indicated by the values of the standard deviations for the answers, which ranged between (1.081 - 0.782) and this indicates the financial Inclusion provided to commercial banks and financial performance for these projects.

<b>Table 8</b>				
<b>ANALYSIS OF THE THIRD DIMENSION QUESTIONS</b>				
<b>Fourth Focus: Financial performance for commercial banks</b>		<b>St. Deviation</b>	<b>Average</b>	<b>Level</b>
1	Your bank growth rate is will be higher than your competitors after FI	1.0187	3.8128/	Medium
2	Your employee productivity will be increased after FI	1.0247	3.7739	Medium
3	The Profitability of our company is good relative to the overall performance of your busibanking ness sector with FI	1.0121	3.6435	Medium
4	Your bank customer retention rate is will be higher than that of your competitors after FI.	0.78646	3.9391	Medium
5	Our overall competitive position is strong in your bank sector with FI	0.92425	3.9478	Medium
6	Customers perceive that they receive their money's worth for purchasing your products and/or services	0.82225	3.9478	Medium
		0.92259	3.8902	High

### CONCLUSION

The results reported that the necessity of enhancing access to financial services as well as the use of financial services and increasing the quality of financial services provided to commercial banks to financial performance.

### RECOMMENDATIONS

The study recommended that the CBJ should follow up the adoption and implemntation of the national strategy and develop legislation and regulatory systems to develop methods for obtaining financial services for the largest number of all the commercial jordanian banks, The study confirmed the need to facilitate legal and regulatory procedures to stimulate the use of modern and innovative technologies such as mobile phones and financial wallets in financial services, as well as targeting projects that are not currently serviced by the banking sector to allow access to funds at the right place and time at a reasonable cost, hence this leads to enhance the level of financial performance in commercial Jordanian banks.

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