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Inclusion of Rural Poor through Financial Inclusion

Dr. V. Darling Selvi, Assistant Professor of Commerce,
Rani Anna Government College for Women, Tirunelveli

Abstract

The Indian banking industry has shown tremendous growth in the last few decades. As per 2011 census, the households availing of banking facilities in India is about 58.7 percent, in Tamilnadu, it is 14.48 crore and in Tirunelveli district, 23.41 percent and out of them, 18.06 percent belong to the rural mass, 30.09 percent belong to the urban mass. This scarcity of financial services leads this study highlighting the extent of financial exclusion and inclusion among the rural poor. The present study has been conducted among 500 sample respondents from Tirunelveli District who are being included in the organized channel of finance through financial inclusion measures. The statistical tools like Weighted Average Method, Factor Analysis was used to interpret the opinion of the respondents and the hypotheses were tested with the help of Chi Square. Financial inclusion is a win-win opportunity for the poor, for the banks and for the nation.

Key Words: Educational Loans, Financial Inclusion, Kisan Credit Cards, MGNREGS, Self Help Groups, Students, Unorganised Workers.

The Indian economy is the second fastest growing economy in the world. The majority of the population in India resides in rural areas. Thus, the development of rural India is a key step towards economic development of a country like ours. In India, in spite of having such a strong financial system, it has been evident that financial awareness has not been able to penetrate into the rural sections of the society. Noninstitutional credit givers in the form of money lenders still continue to grasp the poorer in their clutches. This is a matter of concern and needs special attention. But, the credit can be penetrated into rural India through appropriate banking channels. The Indian banking industry has shown tremendous growth in the last few decades. But despite such growth, the banks have been unable to reach a vast segment of the Indian population. This void ultimately led to the emergence of financial inclusion. Financial inclusion refers to the strategy adopted to make banking activities and its benefits reach the unbanked areas. It is a drive to bring the unprivileged people at par with the mainstream. According to Sinclair (2001), on financial exclusion means the inability to access necessary financial services in an appropriate form. Financial exclusion can be seen as a consequence of social exclusion. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions. The *Findex survey* asked the unbanked the reasons for not having a formal account. Worldwide, by far the most common reason for not having a formal account— cited as the only reason by 30 percent of adults without an account is the lack of enough money to use one. These adults might be classified as the “voluntarily” excluded, who may not have enough income to warrant an account, or are deterred from using formal financial services for small sums because of high bank and travel costs. (Allen et al., (2012)). Chakrabarty (2007), said that the Kisan Mitra Scheme of the Punjab National Bank succeeded in bringing more than 40 villages under 100% inclusion. The Scheme has been helping farmers in formation of Kisan clubs, Self Help Groups and motivating them to undertake vermin compost units, orchard farming and other such activities. As each of these activities would require finance, it is not surprising that PNB has been able to achieve its target of 100% financial inclusion in the villages where the Scheme has been implemented. As per 2011 census, about 58.7 per cent households had reported availing of banking facilities in India. In Tamilnadu, out of the 24.69 crore households, 14.48 crore reported availing banking services. Nearly 10 crore households were not availing the services. In Tirunelveli district, among the total households 23.41 percent could able to access the banking services and out of them, 18.06 percent belong to the rural mass, 30.09 percent belong to the urban mass. People from the Tirunelveli Municipal Corporation have the accessibility of banking services to the tune of 32.91 percent.

Financial Exclusion in India

According to Chakrabarty (2007) “Financial Exclusion is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers.” There are three types of exclusions: (a) people who do not have any access to a regulated financial system; (b) people who have limited access to banks and other financial services; and (3) individuals who have inappropriate products. Mostly low income, unemployed and illiterate people, women and the disabled are excluded from the formal financial services. Lack of Banking habits, high transaction cost, lack of banking knowledge and insufficiency of knowledge on banking products prevents the unbanked people from knocking the door steps of banks. Financial exclusion means: No Savings, No Insurance, No access to money advice, No affordable credit, No Bank account and No assets. There are people who desire the use of financial services, but are denied access to the same. In countries with a large rural population like India, Financial Exclusion has a geographic dimension as well. Inaccessibility, distance and lack of proper infrastructure hinder financial inclusion.

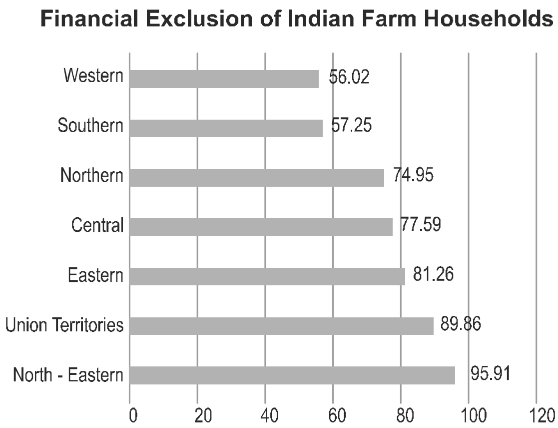
Table 1 Financial Exclusion among Farm Households in India

Region	% of total farm households
Northeastern	95.91
Union Territories	89.86
Eastern	81.26
Central	77.59
Northern	74.95
Southern	57.25
Western	56.02
Average	**76.12**

Source: Reserve Bank of India

The Farm households not accessing credit from formal sources as proportion of total farm households is especially high at 95.91%, 81.26% and 77.59% in the North-Eastern, Eastern and Central Regions. The Southern and Western Regions, on the other hand, exhibit relatively better level of access to formal/non-formal sources when compared with the All India level of 72.7%. This is mainly on account of spread of banking habits and a more robust infrastructure.

Chart a



Extension of Financial Inclusion in India

Globally, Brazil ranks first in the number of bank branches, Australia ranks first in the other banking operations like the number of ATMs, bank loan and in bank deposits. Comparatively India placed in a low position in the number of branches, the number of ATMs, but better placed in case of granting loans and accepting deposits. In the Index of Financial Inclusion (IFI) prepared by the Indian Council for Research on International Economic Relations (ICRIER), India has been placed 50th position in the list of 100 countries. World Bank data shows that a third of India's populace lives in towns and cities and generates about 90 percent of the government's revenue and two-thirds of GDP. Migration from rural to urban India stands at 30 percent, a quarter of the urban population lives in slums. About 70 percent of the population (770 million people) lives in villages, 65 percent of the population is employed in agriculture. The Report of the Committee on Financial Inclusion stated that 72.7 percent of India's 89.3 million farmer households are excluded from formal sources of finance.

As per the Census of 2011, nearly 3 out of every 5 HHs in India availing banking services. In rural areas more than one in two and in urban areas more than 2 out of every 3 HHs availed banking services. Himachal Pradesh ranks first in reaching the people through banking services (89.1%) which is followed by Uttrakhand (80.7%), Kerala (74.2%), Utter Pradesh (72.0%), Jammu and Kashmir (68.9%), Maharashtra (68.1%), Rajasthan (68.0%), Punjab (65.2%), Karnataka (61.1%), Gujarat (57.9%), Jharkhand (54%), Andhra Pradesh (53.1%), Tamil Nadu (52.5%), Chattisgarh (48.8%),West Bengal (48.5%), Madhya Pradesh (46.6%), Odisha (45%), Bihar (44.5%) and Assam (44.1%). At all India level banking accessibility has reached a level of 58.7 percent. The Farm households *not accessing credit from formal sources* as proportion of total farm households is especially high at 95.91%, 81.26% and 77.59% in the North-Eastern, Eastern and Central Regions.

Out of the total bank branches available throughout Tamilnadu, 34 percent has been situated in the Semi Urban area, 30 percent in the rural area, 20 percent in the urban area and 16 percent in the Metro area. In Tamilnadu, there are 12261 unbanked villages under different population categories identified and allotted to various banks by SLBC for coverage under Financial Inclusion. Nearly 95% of the above villages are covered through Business Correspondent model only. The rest of the village is covered through Brick & Mortar branches, Satellite branches, mobile van banking and so on. As of February 2014, 7811 villages have been covered which represents 99.93%. Out of the total measures taken under financial inclusion, 84.63 percent accounts have been opened under No-frills accounts, 1.41 percent under overdrafts on no frills accounts, 1.69 percent under GCCs and 12.26 percent under Smart Cards issued.

The average population per branch office in Tirunelveli district is less than 9500 which compares favourably with the national average of 13000 and the state average of 12000 per branch. After the introduction of the new concept of Service Area Approach, all the village in the 19 blocks have been allocated to 288 bank branches operating in rural and semi-urban areas in the district. Among the total banks in Tirunelveli District, 36 percent situated in the rural area, 39 percent in Semi – Urban area and the remaining 25 percent in Urban areas. The products like No Frills accounts, Business Correspondent Model, Ultra small Branches of Banks, At least one account in a family campign and the like are gaining momentum among the rural mass. The measures like opening accounts for Self Help Groups, MGNREGS workers, Educational Loan and Scholarships for the students, unorganized workers like beedi workers and others working in factories and household industries and to farmers in the form of loans and Kisan Credit Cards make them to have an easy accessibility to banking transactions either voluntarily or compulsorily.

Materials and Methods

The objective of the study is to analyse the banking habit of the rural people and to locate the factors influencing the problems of opening the bank account. The study is empirical in nature, which includes both primary and secondary data. For collecting primary data, Interview Schedule has been prepared and administered among the respondents. The banking sector has taken a lead role in promoting financial inclusion. The present study has been conducted among 500 sample respondents from Tirunelveli District who are being included in the organized channel of finance through financial inclusion measures. They consist of 100 people each from Mahatma Gandhi Employment Guarantee Scheme, Self Help Groups, Unorganised Workers, Students and Farmers. The sample respondents have been selected by Convenience sampling method. The statistical tools like Weighted Average Method, Factor Analysis were used to interpret the opinion of the respondents and the hypotheses were tested with the help of Chi Square.

Key Factors in the Choice of Main Bank

Efficiency of service plays an important role in bank marketing. This dimension includes the overall service, speed of transaction, shorter waiting time, response of personnel and friendliness. It builds faith and confidence in customers. The importance of choosing a bank should not be underestimated. But selecting the right one can have as much to do with the banking habits and personal preferences as it can with the bank's individual attributes, such as low fees, great customer service, or high interest rates on accounts. Customer service can make or break one's experience with a bank. It is noted from the analysis that nearness is a greatest influencing factor which make the sample respondents to prefer a bank branch which is followed by quality of service, recommendations by friends, influence of family members, ATM facility, convenient location of the branch, a number of schemes, the familiarity of the bank staff, safety, relationship with the manager, parking facilities and most competitive package offered.

Table 2 **Factor Analysis of the Key Factors in the Choice of Main Bank**

Variables	Factor I	Factor II	Factor III
Nearness	***.720**	.419	.314
Quality of service	***-.945**	-.230	-.156
Number of Schemes	***.982**	-.081	.115
Familiarity of the bank staff	***-.928**	.339	-.136
Recommendations by friends	.014	***-.999**	.035
Location of branch	.036	***-.943**	.231
Safety	-.586	***.717**	-.035
Most competitive package offered	.183	***.794**	.222
Influence of Family members	-.490	-.205	***-.829**
ATMs	.476	.319	***.808**
Relationship with Manager	.196	.353	***-.906**
Parking facilities	.567	-.392	***.601**
% of Variance	**37.018**	**31.691**	**23.182**
Cumulative %	**37.018**	**68.709**	**91.891**
%	**40.28**	**34.49**	**25.23**

Source: Primary Survey

Accessibility: The accessibility is the basic parameter through which one can access to the banking services. Here, in this analysis the chosen variables which come under the factor accessibility are nearness of bank, quality of service, number of schemes available and familiarity of the bank staff. This factor has a variance of 37.02 percent and has 40.28 percent out of the total.

Safety: Safety of money is the basic criteria which decide the channel of saving by any person irrespective of economic and personal background. Here, the reasons behind the safety of opening the bank account is on the basis of the recommendations by friends, location of the branch, safety and the most competitive package offered by the banks. This factor has a variance of 31.69 percent and has 34.49 percent out of the total.

Feasibility: Generally the attitude of people in opening an account is based on the feasibility of the banking transactions. Here the filtered variables are family members have an account with the bank, availability of ATMs, relationship with the manager and Parking facilities. This factor has a variance of 23.18 percent and has 25.23 percent out of the total.

Reasons for Saving

Without savings, unexpected events can become large financial burdens. Therefore, savings help an individual or family become financially secure. Money can also be saved to purchase expensive items that are too costly to buy with monthly income. Buying a new camera, purchasing an automobile, or paying for a vacation can be all accomplished by saving a portion of income. As per the weighted average, it is noted that the variable to meet family obligations ranks first which is followed by to meet emergencies, old age security, to meet contingencies, higher education, for financial security, travel and recreation and for the purchase of fixed assets.

Table 3 Factor Analysis of the Reasons for Saving

Variables	Factor 1	Factor 2
To meet contingencies	**-.980**	-.152
Higher education	**.889**	-.054
Old age security	**.750**	.282
To meet family obligations	**.655**	.640
To meet Emergencies	**.626**	.661
Purchase of Assets	-.300	**-.930**
For financial security	-.186	**-.834**
Travel and recreation	-.096	**.854**
% of Variance	**40.844**	**40.513**
Cumulative %	**40.844**	**81.357**
%	**50.20**	**49.80**

Source: Primary Survey

Economic Consideration: The variables coming under this head are to meet contingencies, higher education, old age security, to meet family obligations and to meet emergencies. This factor has a variance of 40.84 percent, which forms 50.20 percent out of the total.

Safety Consideration: Meeting family obligations, to meet emergencies, purchase of assets, for financial security and for travel and recreation were the variables identified here and they are collectively specified in the head Safety Consideration. This factor has a variance of 40.51 percent, which forms 49.80 percent out of the total.

Benefits of Bank Account

Having a bank account enables people to obtain cheaper deals on fuel, insurance and credit. Basic bank accounts can also help prevent over indebtedness since they do not offer overdraft facilities. Payment of state benefits directly into accounts has boosted take-up bank accounts. Banks are transforming to become people oriented and customer focused to bring perceptible changes in their business strategies. As per the weighted average ranks, it is ascertained that safety is the major priority for which the sample respondents prefer the banking transactions which is followed by the easy settlement, self-confidence, less risky, easy way to save money, convenience, profitable, cheaper, easy accessibility of credit and boost saving habits.

Table 4 Factor Analysis for the benefits of Bank Account

Variables	Factor 1	Factor 2	Factor 3
Give self confidence	**-.963**	.169	.203
Profitable	**-.962**	-.270	-.009
Less risky	**.940**	-.015	-.150
Convenience	**.707**	-.631	-.186
Safety	**-.643**	.426	.636
Easy settlement	.297	**.877**	-.356
Easy accessibility of credit	.000	**.763**	.302
Cheaper	.300	**-.742**	-.368
Easy way to save money	.060	.186	**.925**
Boost saving habits	.321	-.010	**-.863**
% of Variance	**39.34**	**26.17**	**24.56**
Cumulative %	**39.34**	**65.51**	**90.07**
%	**43.67**	**29.06**	**27.27**

Source: Primary Survey

Risk free: Being risk free in transaction gives the respondents to acquire self-confidence, profitable transactions, convenience and safety for their money at the bank.

An Easy Settlement: The respondents find an easy settlement of their credit transactions, and Easy accessibility of credit for cheaper rates.

Saving Habit: Above all, the respondents feel easy to save their amount and it naturally boosts their saving habits.

Factors influencing the problems of opening the bank account

Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people. Opening a bank account is not as simple as walking up to a bank teller and handing over crumpled wads of cash; there are lots of decisions to make and confusing banking jargon to wade through. Though the banking facilities are available at the doorsteps of every house, the poor and illiterate still find it difficult to open the bank account. They do some sort of difficulties like keeping a minimum amount of balance, getting an introducer, number of formalities, delay in opening the account, poor customer services and so on. By taking the problems faced by the sample respondents as the base, the researcher test the hypotheses considering the personal profile of them under various perspectives. Out of the total respondents of 500, only 400 are taken into consideration for the analysis here as the student category were not faced with any difficulties in connection with the opening up of accounts in the bank. The analysis is done with the help of Chi Square test.

Table 5 Factors influencing the problems of opening Bank Accounts

Variables	Calculated value	Table Value	Remarks
Personal Factors			
Marital Status	10.82	15.5	Not Significant
Gender	**13.67**	**9.49**	**Significant**
Family Type	3.18	9.49	Not Significant
Family Size	.43	9.49	Not Significant
Education	17.82	21	Not Sig66nificant
Age	**29.28**	**26.3**	**Significant**
Income	**21.69**	**15.5**	**Significant**
Employment Factors			
Employment	45.69	21	Not Significant
Experience	30.81	31.4	Not Significant
Experience with the Banking Transactions			
Name of Bank	**40.73**	**26.3**	**Significant**
Number of Bank accounts	**21.70**	**15.5**	**Significant**
Type of account	**31.22**	**21**	**Significant**
Satisfaction	**26.61**	**26.3**	**Significant**

Source: Derived

As per the consolidated result of the various hypotheses, out of the personal variables, the variables gender, age and income have influence over the problems of opening the accounts. Employment factors have no influence over the problems of opening the accounts. It is the banking transactions and experiences consisting of the name of the bank, number of accounts, account type and the satisfaction derived from the banking transactions have influence over the problems of opening the accounts. Hence it is concluded that the variables related to the banking transactions have more influence in overcoming the problems of dealing with the banking transactions than the personal and employment related variables. Thus the result is when the usage is more, one can accustom to the problems of dealing with.

Conclusion

The survey reveals that the sample respondents could able to save because of the opening of bank account in one way or another. Though they encounter few problems and difficulties in opening the account because of various formalities, they find it useful and viable at the end. The banking experience and number of accounts, account type and the satisfaction derived from the banking transactions have a positive influence over the problems of opening the accounts. The awareness and applications of latest banking technology are comparatively very low among the rural mass and it needs serious concern and execution among the policy makers. Financial inclusion is a win-win opportunity for the poor, for the banks and for the nation. It is suggested from the present study that proper Financial education to eradicate the ignorance of banking transactions, imparting technological awareness to cope up with the changing technological measures, opening more bank branches in the rural area to overcome the proximity hurdle, extension of financial services to shelter more number of people, make the transactions customer friendly by minimizing the formalities, make the customer aware that customer is the king by extending a warm relationship, execution of effective Grievance Mechanisms, creation of viable KYC norms, identification and extension of credit schemes and facilities to the needy and the usage of post offices in the reach of financial inclusion will help in fulfilling the vision of financial inclusion more effectively and efficiently among the rural poor.

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