*Article* *ISSN: 2348-3784*

# Understanding Financial Inclusion in India: A case study of Sattur Taluk, Tamil Nadu

Digital Object Identifier: 10.23837/tbr/2016/v4/n2/128863

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## Abstract

*Financial inclusive growth is said to be real only when it has registered an all inclusive growth, namely, all the strata of the society including the vulnerable group is brought to the ambit of financial inclusion. The country which is envisioned to be a power in Asia – unfortunately for a long time, had suffered from the malaise of financial exclusion. To plug the loophole, hectic activities are going on to hit the target of financial inclusion. To tart from the scratch, citizens of the country including those living in the remotest rural region are prompted to have an access to the basic financial service, i.e, opening a bank account (no frills account) which would blossom into a universal access to a wide range of financial services at a reasonable cost. The present paper sheds light on criteria / indicators of financial inclusion with special reference to Sattur Taluk, Tamil Nadu.*


***Keywords***: *Financial inclusion, Financial services, Indicators of financial inclusion, Comprehensive financial inclusion.*

## 1. Introduction

Now, the Reserve Bank of India (RBI) lays emphasis on financial inclusion to make commercial banks to pay desired attention, the RBI as early as 2005 – 06 urged the banks to align their practices with the objective of financial inclusion. A notable feature is that financial inclusion is delivery of not only banking service but also other financial services like remittance, insurance, pension, and mutual funds etc., delivered at an affordable cost in a transparent manner. So, the mission is once the first step of safety of savings is achieved, the marginalized and low income group requires access to other schemes and products. This would yield benefits to the excluded group like inculcating the habit of saving money, providing formal credit avenue, and plugging gaps / leaks in government subsidies and welfare programmes. Amid this backdrop, one is interested in understanding the extent of progress registered in financial inclusion in the study area of Sattur taluk in Virudhunagar district.

## 2. Review of literature

The causes for financial exclusion may vary from country to country; and the financial inclusion programmes have ameliorated the income and standard of life of low income group (Leeladhar, 2005). Financial inclusion becomes an important policy by dint of the fact that it has augmented the income of the poor (Kendall et al, 2010). Beck et al. (2007**)**,

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studied the access to and availing of bank services in various countries. He concluded that access to bank services and frequency in the usage of bank deposit and bank loan are the main indicators of the degree of financial inclusion. To tackle the problems of financial exclusion, it is necessary to ensure a wide range of financial services to all. The financial services encompass opening a bank account, savings, availing of credit, remittance, payment and the like, (Rangarajan, 2008).

Chakrabarty, 2009 said that financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. Financial institutions play a crucial and wider role in fostering financial inclusion. Lack of financial literacy is the major hindrance in spreading financial inclusion. This has resulted in more than 50 per cent of the savings of the household sector getting drained in non-financial investments (Massey, 2010). Including the low income groups in the financial sector will tend to raise the stability of loan and deposit bases. It is suggested that financial institutions catering to the lower and tend to weather macro crises and help sustain economic activity (Hanning and Jansen, 2010).

Financial inclusion is most commonly thought of in terms of access to credit from a formal financial institution, but the concept has more dimensions. There may be alternatives to formal account like mobile money. The main other financial service besides banking is insurance especially for health and agriculture (Kunt and Klapper, 2012). The advantage of educating youth is that they grow up into financially literate adults (Hogarth, 2002). Financial education can be taught using a variety of strategies; however, those involving active learning such as simulation and role playing are suggested for youth (Varcoe and Fitch, 2003).

Active learning methods of financial education help to make abstract concepts more tangible to students; they are likely to influence transfer of learning (Haskell, 2001). Financial advisors can be particularly valuable for individuals who lack financial literacy and are prone to cognitive biases (Fischer and Gerhardt, 2007). Financial literacy is strongly and positively associated with seeking financial advice (Lusardi, Annamaria and Mitchell, 2008). Default counseling helps mortgage borrowers who are behind on their payments and foreclosure and receive more favorable loan modifications (Mayer et al., 2009).

In a study by Hung and Yoong (2010) on the relationship between financial advisors and investors in the light of the current financial crisis, it was found that advisors can help clients avoid panicking and acting irrationally. The investors who are older, female, married are risk reverse and wealthier are more likely to use financial advisors (Gerhardt, Ralf and Hackethal, 2009). Low financial literacy is correlated with negative financial behavior. Financial counseling can help individuals develop better financial practices. Financial counseling and financial literacy interventions are promising ways to improve individuals' financial security (Agarwal, 2010). In a survey of bank officials across the country the officials agreed that the task of financial inclusion was a social obligation, and they did not consider it as a big business opportunity (Rao, 2010). Financial advice, bank payments (saving or current) remittance, insurance, affordable credit and credit card empowerment of SHGs are the factors determining financial inclusion (Rao and Rahat, 2011). Financial inclusion largely depends on the credit spread by the organized sector. A structured programme is needed to achieve financial inclusion. The earlier steps were inadequate for the objective equity growth of the nation (Pandi and Selvakumar, 2012).

## 3. Problem and objective of the study

In a developing country like India, one needs a comprehensive financial inclusion so as to mitigate the rising income inequality. This casts a greater responsibility on the financial services sector to drag on the entire vulnerable group to the ambit of financial inclusion. With this background in view, the objective of the present study is to explore the extent of financial inclusion in India in terms of parameters like opening of bank account, frequency of bank transactions, loan borrowed and financial advice. The study has been made with special reference to Sattur taluk in Tamil Nadu.

## 4. Data and methodology

The study mainly depended on primary data which were collected from a structured questionnaire. In the absence of a concrete sampling frame, quota sampling method was applied to select more or less an equal number of samples of 144 and 142 respectively from rural and urban areas in the study region of Sattur taluk in Tamil Nadu. The sample survey was conducted during the period, January 2016 – March 2016. Relevant statistical tools such as percentage calculation, weighted average, chi square test, t- test and one way ANOVA were applied for the analysis of survey data.

## 5. Results and discussion

*1. Bank Account*

Found that cent per cent of the respondents opened a bank account; of them, 64.7 per cent had savings bank / current account. Friends and relatives helped the respondents to open an account with the bank. Found that 26.2 per cent respondents were not aware of the existence of zero minimum bank account.

A significant revelation was that only 35.7 per cent respondents deposited money into their savings account once in a month. 't' test was performed to verify the following null hypothesis, and the results of the test are shown in Table 1.

**Table 1: Results of t – test**

| Variable | Null Hypothesis | Result (p<.005/.001 | Accept / Reject |
|---|---|---|---|
| Purpose opening a/c by male & female | There is no difference in the means of two groups (male & female) to open a/c to receive government payments from NREGP | . 630 | Accept |
| Frequency of getting bank service by male & female groups | There is no difference in the means of two groups in the frequency of getting bank service | . 032 | Reject |

***Source:*** *Primary data*

The present author has also performed one way ANOVA to test the hypotheses and the results of variance are presented in Table 2. It could be seen from Table 2 that the first null hypothesis is rejected, i.e., there is difference in opening bank account for the purpose of saving money for the various education levels.

*2. Borrowing*

The analysis unveils that 69.2 per cent of the respondents have not yet borrowed loan from the bank. It is also a revelation that a sizeable number of respondents have borrowed from the bank as home loan.. The survey has brought to surface that about 22 per cent respondents have been refused loan by the banks.

*3. Insurance and Other financial services / products*

Found that 36.6 per cent subscribed for life insurance. A remarkable revelation was that a majority 76 per cent reported that there was no financial advice center in their area. Another important finding was that cent per cent of the respondents resorted to financial advice about money matters from one source or another. A dismal feature was that a majority 72 per cent reported that there is no financial advice center in their area. During the survey, the respondents were requested to assign ranks to their level of interest in the six different bank services such as taking a business loan, saving small amount of money, advice about managing debt, borrow loan at reasonable interest, advice on welfare, and more information about financial matters. While the first rank carried the score of 6, the 2$^{nd}$ rank with the score if 5, and so on. It was a disclosure that the level of interest in saving small amount got the first rank (with the mean score of 4-113), followed availing of loan at reasonable interest rate (3.80) and getting advice about managing debt (3.61).

To a question on what would you (respondent) do if money was needed in an emergency? It was found that only14.3 per cent respondents would resort to bank loan, and 9.1 per cent would draw from their savings. This shows a poor or mediocre level of financial inclusion; it indicates that the respondents would approach the unorganized sector for the loan.

**Table 2: Results of ANOVA**

| Variable | Null Hypothesis | Result (p<.005/.001 | Accept / Reject |
|---|---|---|---|
| Purpose of opening a/c is to put savings | There is no difference in opening a/c for the purpose of saving money for different education levels | . 007 | Reject |
| Purpose of opening a/c is to put savings | There is no difference in opening a/c for saving money for the different age levels | . 245 | Accept |
| Purpose of opening a/c is to receive government payment from NREGP | There is no difference in opening a/c for the purpose of receiving government payment under NREGP for various education levels | . 939 | Accept |
| Purpose of opening a/c is to receive government payment from NREGP | There is no difference in opening a/c to receive government payment under NREGP for various age levels | . 722 | Accept |
| Purpose of opening a/c is to receive government payment from NREGP | There is no difference in opening a/c to receive government payment under NREGP for various occupation levels | . 098 | Accept |
| Purpose of opening a/c is to receive government payment under other schemes | There is no difference in opening a/c to receive government payment under other schemes for various occupation levels | . 947 | Accept |
| Purpose of opening a/c is to receive government payment under other schemes | There is no difference in opening a/c to receive government payment under other schemes for various income levels | . 263 | Accept |

***Source:*** *Primary data. Result calculated*

*Extent of Financial Inclusion in the Study Area*

One can understand well about the degree of financial inclusion in Sattur Taluk by looking into the results of analysis presented in the following table.

*Key Suggestions*

The analysis has revealed that a majority of the respondents do not have the habit of regular saving. For instance, while 22 per cent reported they deposited as and when they could deposit, and 15.40 per cent had not deposited during the past 12 months. This shows a disquieting feature of financial inclusion based on the habit of saving.

The authorities concerned have to boost employment opportunity so as to enable the low income group to save money and deposit it into the bank.

Another parameter of financial inclusion is the respondents availing bank credit. A shocking revelation was a majority 69.29 per cent have not yet borrowed bank loan; the survey noted that earlier 26.6 per cent were refused the bank loan. The indicates a task remains, namely, to drag on a substantial number of respondents to the ambit of bank credit. A comprehensive financial inclusion suggests the use of banks as a credit channel by the low income group.

An important finding was that 36 per cent respondents subscribed for life insurance policy. A dismal feature was only 6.6 per cent and 1.4 per cent respectively subscribed to social security insurance schemes of Atal insurance scheme and Pradhan Manthiri accidental insurance scheme. It is learnt during the survey lack of awareness has led to the respondents meagre amount of subscription to social insurance schemes. It is suggested that awareness programmes are to be organized by the banks, insurance companies and SHGs to popularize the social insurance schemes. Importantly, these programmes should be conducted in vernacular language.

The respondents would have sought advice about money matters at one time or other. It came to light that 71.3 percent reported that their getting advice about money matter was helpful to them. At the same time, a majority 72 per cent reported that were was no financial advice centre in their area. This suggests for opening the advice centre either in banks or in some other places of financial agencies - a place that may serve as a centre covering four or five villages. It was found that 58.4 per cent respondents were not satisfied with the existing business correspondent (BC) model. This strongly suggests for improving the present BC model by means of imparting training and providing incentives to the correspondents. It was found that if money was needed at times of emergency, 14.3 per cent respondents would raise bank loan and 9.1 per cent would draw from savings bank account. This indicates the respondents would fall back on unorganized credit. This suggests for ease and speedy disbursal of bank credit.

## 6. Conclusion and Implication

Financial inclusion is a process. Started with a simple step of opening up of bank account for the vulnerable group would blossom into a comprehensive / total financial inclusion which ensures a range of financial services to every citizen. These services encompass:

- No frills account for receiving and making payments.
- A savings account suited to the pattern of cash flows of a poor household.
- Small loan and overdraft for productive and personal purposes.
- Money transfer facility and
- Micro insurance – life and non life.

Government of India has been providing opportunities to the less privileged group by increasing its outlay on health and education for the poor. Here lies the importance of financial inclusion which is essential for targeted intervention by the state. A laudable feature is that the IMF Report (in May, 2016) refers to MNREGA, mid day meals, initiative in public education and the JAM trinity, i.e., Jan Dhan Yojana, Aadhaar and Mobile number for the comprehensive financial inclusion ( The New Indian Express, May, 2016) .

**Table 3: Criteria / indicators of financial inclusion**

| Indicator No | Indicator / Description | % to total | Remarks |
|---|---|---|---|
| 1. | No of respondents opening bank a/c | 100 | ---------------------------------- |
| 2. | No of respondents having savings / current a/c | 64.7 | Respondents are to be encouraged to open savings a/c. |
| 3. | No of respondents having cheque book | 42.7 | Practice of using cheque book by most of the respondents is to be made; this will spur financial inclusion. |
| 4. | No of respondents who deposit into savings a/c at least once in a month | 35.7 | There is lack of use of bank a/c for deposit. |
| 5. | No of respondents' awareness of no frills a/c | 73.8 | Still, a sizeable 26.2% are unaware of no frills a/c. |
| 6. | No. of respondents borrowed loan from bank | 31.8 | A majority 69.2% have not yet resorted to bank loan; utilization of bank credit is a robust indicator of financial inclusion. |
| 7. | No of respondents not used financial products | 42-3 | Poor utilization of financial products. |
| 8. | No of respondents reported no financial advice centre in their area | 72.0 | Inadequate number of the centres. |
| 9. | No of respondents not satisfied with the existing business correspondent (BC) model. | 58.4 | Indicates lapses in the BC model. |
| 10. | No of respondents worried about getting into debt | 64.0 | Indicates there should be a comprehensive financial inclusion to ease bank credit. |

***Source:*** *Primary Data*

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