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Evaluation of Financial Inclusive Drives- A Case Study

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Abstract: The Indian economy is growing at a healthy pace after adopting the new economic policy. However, there is widening the gap between the rich and poor. The challenge before the country is to make the growth inclusive. Financial inclusion is now on top of the development agenda of both the Government of India and the Reserve Bank of India. According to the Rangarajan committee report, “NSSO data reveal that 48% of the households do not have access to banking services, majority being rural population. 26% of the population lives below poverty line and just 21% of the rural household have access to bank credit. The banking sector is able to meet only 20% of the credit needs of the rural poor. A robust and comprehensive measure of financial inclusion is important in order to know the current state of affairs with respect to financial inclusion in an economy and to monitor the progress of the policy initiatives undertaken to promote financial inclusion. In this paper, an attempt has made to examine the extent of Financial Inclusion at Micro level from several dimensions. The study reveals that the rural customers are not satisfied with general banking services and the extent of use of innovative services is dismal at grass root level.

Key Words: Financial Inclusion, SCBs, BC, ATM, **JEL Classification:** E5, E52, C12, G21

I. INTRODUCTION

The study of financial inclusion is highly important for the society because consequences of financial exclusion may be quite harmful. Financial exclusion may generate lower investment resulting from difficulties in getting access to credit or gaining credit from informal sector at very high interest rates. A well-developed financial system is highly important for economic development. The academic literature has adequately discussed the close relation between financial development and economic growth. Thus, an all inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services.

The Indian economy is growing at a healthy pace after adopting the new economic policy. However, there is widening gap between the rich and the poor. The challenge before the country is to make the growth inclusive. Financial inclusion is now on top of the development agenda of both the Government of India and the Reserve Bank of India. The financial exclusion is measured in terms of minimal access to banking tremendous growth in the volume of credit and geographical reach. However, despite making significant improvement in all the areas relating to financial viability, profitability and competitiveness, banks have not been able to include vast segment of the financial exclusion population.

A robust and comprehensive measure of financial inclusion is important in order to know the current state of affairs with respect to financial inclusion in an economy and to monitor the progress of the policy initiatives undertaken to promote financial inclusion. In this paper, an attempt has been made to examine the extent of Financial Inclusion at Micro level on several dimensions.

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II. MEANING OF FINANCIAL INCLUSION

The Government of India's 'Committee on Financial Inclusion in India' in its report defined financial inclusion "*as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost*" (Rangarajan Committee 2008).

For the purpose of this paper, we define financial inclusion *as a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy*. This definition emphasizes several dimensions of financial inclusion, viz., accessibility, availability and usage of the financial system. These dimensions together build an inclusive financial system. As banks are the gateway to the most basic forms of financial services, banking inclusion/exclusion is often used as analogous to financial inclusion/exclusion. In this paper also, we will use banking inclusion as analogous to financial inclusion.

In short Financial inclusion ensures 5 A's - Adequacy Availability Accessibility Awareness and Affordability

Since 2005 RBI has under taken new steps to improve access to rural finance in India under Financial Inclusion drive. The following are notable steps.

- Opening of "No frill" accounts
- Overdrafts bundled with NFAs
- General Credit Cards,
- Simplified account opening
- Disbursement of government payments such as NREGS wages through bank accounts
- Electronic payment solutions
- Business Correspondent(BC)
- Business Facilitator arrangements
- BC network management companies,
- BC technology service providers,
- Payments systems agents, micro branch kiosks
- Relaxed KYC norms for NFAs,
- Relaxed rural branch licensing policy

After the recommendation of Rangarajan committee and implementation of financial inclusions drives by the RBI, supply side efficiency of the organized financial institutions has been changing very drastically. The rural people are now getting access to credit at affordable cost through various alternative banking modes. However still these modern banking instrument especially made for the financial inclusion are suffering from various drawbacks. Hence, the main research problem arises to find out, how to implement these modern banking instruments in rural areas and what appropriate policy to be implemented by the RBI and Government of India, to improve the level of financial inclusion. Under this overall backdrop, present study tries to examine the extent of success of financial inclusion at grass root level by taking into

III. OBJECTIVES OF THE STUDY

Following are the major objectives of the present study.

- 1) To review various alternative banking services extended by Scheduled Commercial Banks (SCBs) under Financial Inclusion Drive.
- 2) To examine the extent of success of Financial Inclusion Programmes at Grass root level of Kolhapur District.
- 3) To study the reasons for partial success of SCBs in the context of Financial Inclusion.

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IV. DATA BASE AND RESEARCH METHODOLOGY

The study at macro level is mainly based on secondary data taken from the reputed published sources. Such as Report on Currency and Finance, Trend and Progress of Banking in India published by RBI etc. A study at Micro level is based on primary data. The researcher has selected six branches of SCBs in Kolhapur district out of which three belong to hilly area and remaining three to non-hilly area constituting ten percent of total branches of concerned two tehsils. Sample selected for the study is-10 Customers, 3 Business Correspondents and one Manager from each branch. (60+18+6=84) In the present research work, necessary statistical tools such CGR, SGR, and Z-test are used.

V. NATIONAL SCENARIO OF FINANCIAL INCLUSION

According to the Rangarajan committee report “NSSO data reveal that 48% of the households do not have access to banking services, majority being rural population. 26% of the population lives below poverty line and just 21% of the rural household have access to bank credit. The banking sector is able to meet only 20% of the credit needs of the rural poor. The gap between the rich and poor is wide. 51.4% farmer households in the country do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Many household not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion.” (Government of India (2008), the Committee on Financial Inclusion (Chairman: C. Rangarajan).)

VI. MICRO LEVEL STUDY OF FINANCIAL INCLUSION IN KOLHAPUR DISTRICT

The Financial Inclusion Programme implemented at District level shows partial success. To find out the impact of Financial Inclusion at grassroots level a pilot survey has been made in Kolhapur District. The study focuses on all the segments covered under the programme viz. Banks, BCs and Customers.

**A) Performance of Banking Financial inclusion at Sampled Rural Level:
Table-1 Performance of SCBs under Financial Inclusion in Kolhapur District**

| Financial Year | Deposits Amt (Cr) | Cr Amt (Cr) | No. of No frill Accounts | | | No. of ATM card holders | | | SHGs | | |
|----------------|-------------------|---------------|--------------------------|----------------|---------------|-------------------------|-----------------|----------------|-------------|------------|--------------|
| | | | Active | Inactive | Total | Active | Inactive | Total | Active | Inactive | Total |
| 2007-08 | 38.05 | 32.86 | — | — | — | — | — | — | 104 (80) | 25 (20) | 129 (100) |
| 2008-09 | 45.09 (19) | 42.65 (30) | — | — | — | 4780 (79.57) | 1228 (20.43) | 6008 (100) | 152 (83) | 21 (17) | 183 (100) |
| 2009-10 | 41.92 (-7) | 45.90 (08) | 775 (48.41) | 860 (51.59) | 1635 (100) | 8519 (82.62) | 1793 (17.38) | 10312 (100) | 185 (76) | 56 (24) | 241 (100) |

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|---|---------------|---------------|-----------------|-----------------|----------------|------------------|-----------------|----------------|--------------|-------------|---------------|
| 2010-11 | 53.87 (29) | 55.25 (20) | 1578 (38.15) | 2558 (61.84) | 4136 (100) | 14193 (86.40) | 2235 (13.60) | 16428 (100) | 257 (84) | 47 (16) | 304 (100) |
| 2011-12 | 59.44 (10) | 60.32 (09) | 3244 (35.67) | 5849 (64.32) | 9093 (100) | 24414 (90.40) | 2614 (9.60) | 27028 (100) | 364 (81) | 81 (19) | 445 (100) |
| % Change during 2007-08 to 2011-12 | 37.97 CGR | 34.53 CGR | 5597 (37.7) | 9267 (62.34) | 14864 (100) | 51906 (86.83) | 7870 (13.16) | 59776 (100) | 1062 (82) | 230 (18) | 1302 (100) |

Source: Computed from Primary Data

Major Findings drawn from the table-1: From Bankers Point of view

- The table-1 shows that there is a steady growth of bank deposits at a rapid pace. In terms of CGR it was nearly 38 percent. However, the annual growth is more volatile.
- The same trend is found in case of bank credit. It has been expanded by around 34 per cent CGR over a period of 5 years.
- Branch officials have made serious efforts more to open No frill accounts. However, more than 65 per cent of No frill accounts are inactive/dormant.
- No. of ATM card holders have registered a steady growth and the number has increased fourfold, Out of the total ATM card holders 13 per cent accounts are inactive.
- The banks are very slow in issuing General Credit Card/clean overdraft
- Although the number of SHGs has gone up by more than three and half times during the five year period, there are 29 percent groups of the total which are inactive.
- Adequate efforts are not there to educate the customers about the products/services directly or through B.Fs./B/Cs

B) Response of Customers towards operation of Banking Services:

1) General Services:

Table- 2 Response of Customers relating to General Banking Services

| Sr.No. | Parameters of the satisfaction | No. of Respondents (%) |
|----------|--------------------------------|------------------------|
| 1 | Excellence | 3 |
| 2 | Good | 22 |
| 3 | Fair | 75 |

Source: Computed from Primary Data

Hypothesis testing of above Data (Table-2): Z- test for difference of Means:

Null Hypothesis: Rural customers are satisfied with general banking services.

Ho: $\mu = 2$ H1: $\mu > 2$

Sample Mean = 2.73

Sample Variance = 0.222

z-cal=9.73 z-tab= 1.64

Here the calculated z is 9.73. Since it exceeds the table value of 1.64, the null hypothesis has been rejected. Therefore Rural customers are not satisfied with general banking services.

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2) Innovative services:

Table-3

Responses of the Customers of the banks in Rural Area to Innovative services

| Sr. No. | Factors | No. of Respondents (%) |
|---------|--|------------------------|
| 1 | Users of ATM services | 47.5 |
| 2 | Users of Internet Banking | 15 |
| 4 | Users of Mobile Banking | 40 |
| 5 | Awareness about Financial Inclusion Services | 45 |
| 6 | Getting the help from Bank's Staff | 42.5 |

Source: Computed from Primary Data

Hypothesis testing of above Data (Table-3): Z- test for difference of Means:

Null Hypothesis: Performance of Innovative banking services as a means of financial inclusion towards rural people is satisfactory.

Sample Proportion = 0.38

Ho: P=0.5 H1: P < 0.5

z-cal= -3.39 z-tab=1.64

Here the calculated z is -3.39. Since it is less than table value of 1.64, the null hypothesis has been rejected. Therefore Performance of Innovative banking services as a means of financial inclusion towards rural people is not satisfactory.

3) Difficulties in the use of ATM services:

Various problems are faced by rural people while operating ATM services provided by SCBs. They are summarised below.

Table-4 Showing problems encountered in using ATM services

| Sr. No. | Problems faced by the Customers (60%) | No. of Respondents (%) |
|---------|--|------------------------|
| 1 | Lack of Information for Using ATM services | 33 |
| 2 | Machine out of order | 25 |
| 3 | Electricity Problem | 13 |
| 4 | Machine out of Cash | 25 |
| 5 | Language problem | 4 |
| | Total | 100 |

Source : Computed from Primary Data

4) Response of BCs: BCs play a vital role in Financial Inclusion.

Table-5 Responses of the BCs of the banks

| Sr.No | Particulars of BC respondents | No. of respondents (%) |
|-------|--|------------------------|
| 1 | Awareness among BCs about Financial Inclusion | 73 |
| 2 | Positive Response of the people while opening of account | 67 |
| 3 | Good Attitude and behavior of the bankers towards BC | 80 |
| 4 | Visit of bankers in working area to support BCs | 60 |
| 5 | Electronic Based Technology | 20 |

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Note: Figures in the parenthesis are the % to total.
Source: Computed from Primary Data.

VII. FINDINGS DRAWN FROM TABLE 2, 3 4 AND 5

- Extent of use of innovative services is dismal.
- Nearly half of the sample respondents do not use ATM devices
- A small proportion of respondents is accustomed to use Internet Banking.
- The customer for checking the balances in their accounts uses mobile banking.
- Majority of the customers are unaware of Financial Inclusion Services.
- The support of the bank to the customers in Banking transaction is not satisfactory

Many of the users of ATM face the problems such as lack of knowledge regarding the use of banking innovative services, nonworking of ATM machines, Electricity failures, machine out of cash etc. while using ATM.

- A large number of No frill accounts are opened through BCs.
- Majority of them are aware of Financial Inclusion.
- They receive better response from customers while opening accounts.
- Many Bankers visit working areas of BCs .
- It is observed that most of them do not use Electronic Based Technology Devices (EBT)

VIII. REASONS FOR PARTIAL ACHIEVEMENTS

The above facts and figures represent the active participation of Scheduled Commercial Banks (SCBs) in Financial Inclusion Drive. But the success is partial. The following are the reasons for partial achievements of SCBs regarding Financial Inclusion Programmes.

The Demand side factors are

- **Lack of awareness** about financial services and products, limited literacy, especially financial literacy of the populace, and social exclusion.
- **Unsuitability of the financial products** for the poor and there is not much of an effort to design products suitable to their needs.
- **Unfriendly and un-empathetic attitude** of the banks to the customers also plays an important role in undermining the demand for financial services.
- **Exorbitant and oftentimes non-transparent fees** combined with burdensome terms and Conditions attached to the financial products dampen the demand.

The supply side factors are:

- **High transaction costs** that the bankers perceive to be high owing to low volume of business. Banks find that extending financial services in some particular regions and to some particular class of people is not cost effective.
- **Lack of communication due to language barriers.**
- **Lack of infrastructure & Low literacy levels**

VIII. CONCLUSION

Financial Inclusion of those who are excluded is a huge task. There is vast business potential for banks provided all eligible people are included in the development process by creating awareness through financial education, training, information about various services and offering them suitable products and services. This is not the job of banks alone but it should be

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Collective efforts of banks, Government, B/Cs/B/Fs, SHGs, and NGOs. Positive attitude on the part of bank staff is essential. Devices of alternative banking business should be so simple to suit the illiterates in the rural areas. Awareness about alternative banking products should be created amongst excluded groups. The real success of the financial inclusion drive should be measured not by the number of accounts opened but by the actual quantity and quality of usage of the newly opened no frills accounts and other devices. Hence, the first step to achieving 100% financial inclusion is creating financial awareness and financial literacy among people. Any step taken by RBI or the government of India in this direction would be fruitful if the people themselves understand the value of being a part of the financial system of the country.

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