FINANCIAL INCLUSION IN INDIA – AN EXPLORATORY STUDY OF PILANI

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Abstract: India as a country presents great diversity in its geography, history, and culture and population demography. This diversity makes it extremely difficult to suitably categorize the country n economic, political, religious or demographic grounds. Post-Independence growth has led to overall development of the country as a whole but it has also divided it into two distinct segments thus providing a suitable basis of categorization in the form of Rural and Urban India. As per the census of 2001 only 27.78% population of the country lives in the urban segment while the rest are still residing in the inherently characteristic Rural India. This paper deals with the challenges the diverse nature of India poses to the overall development of the country and attempts to examine the relationship between financial inclusion and development by identifying the empirical factors that are associated to the various levels of financial inclusion. Based on the review of literature to find the best methods to deliver financial education for financial inclusion, this paper highlights the results of the survey conducted to understand the inclusion better, solutions found, discusses the main lessons learnt and the potential way forward. The overall analysis to see how a country is developing would push forward to a path much needed by people of rural India as it would highlight the changes in the various variables included in this study and will give feedback and direction to policy makers.

Keywords: Finance, Financial Inclusion, Government Policies and Regulations, Multi-Dimensional Index.

Definition of Financial Inclusion: GOI (2008) defines Financial Inclusions as *the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.* The main target for providing and delivering financial services are the low income groups and to provide them financial services for better standard of living and income.

Banerjee and Newman (1993) have observed that the way to exit the spiral of poverty is by enhancing the productivity and access to finance. Beck et al (2009) observed that a well-developed financial system accessible to all, reduces information and transaction costs, influences savings rates, investment decisions, technological innovation and long run growth. The importance of Financial Inclusion to national economies is evident from the support extended by individual governments and international bodies around the world. (Frost &Sullivan Report, 2009)

According to the National Sample Survey Organization (2003, 59th round) 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million household do not access credit, either from institutional or non-institutional sources. Farm household's not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.29% in the North Eastern, Eastern and Central Regions respectively. The report of the Committee on Financial Inclusion constituted by Government of India (Rangarajan, 2008) reports that 73% of farmer households have no access to formal sources of credit. India alone has 560 million people who are excluded from formal source of finance and this is in strong correlation with the 41.6% of the population (457 million) that still lives below the poverty line i.e. US $1.25/day (NCR Whitepaper on Financial Inclusion, 2009).
According to the United Nations for the main goals of Inclusive Finance are as follows (2003):

a. Access at a reasonable cost for all households and enterprises to the range of financial services which are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances
b. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required
c. Financial and institutional sustainability as a means of providing access to financial services over time
d. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

Literature Review:
The level of financial inclusion in India can be measured based on three tangible and critical dimension. These dimensions can be discussed under the following heads:
1. **Branch Penetration:** Penetration of a bank branch is measured as number of bank branches per one lakh pollution.
2. **Credit Penetration:** Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population.
3. **Deposit Penetration:** Deposit penetration can be measured as the number of saving deposit accounts per one lakh population.

Credit Penetration is the key problem in the country as the All India Average ranks the lowest for credit penetration, for increasing the level of financial inclusion, the GoI and RBI have taken a few actions which include the following:
- Nationalization of Banks (1969, 1980)
- Priority Sector Lending Requirements
- Establishment of Regional Rural Banks (RRBs) (1975, 1976)
- Service Area Approach (1989)
- Self-Help group-bank linage program (1989,1990)

In the recent years, the CRISIL Inclusion Index for 2009-10 also show a very dismal situation (Table 1), but 2011 report shows some progress in the area of financial inclusion in India. Table 2 depicts the Bank Group and Population Group wise Number of Functioning Branches as on March 31, 2015

Table 1: Financial Inclusion At Regional Level

Region	Inclusix 2011	Inclusix 2010	Inclusix 2009
India	40.1	37.6	35.4
Southern Region	62.2	58.8	54.9
Western Region	38.2	35.8	33.9
Northern Region	37.1	34.8	33.3
Eastern Region	28.6	26.3	24.3
North-Eastern Region	28.5	26.5	23.8

Source: CRISIL (2013)

Table 2: Bank Group and Population Group wise Number of Functioning Branches as on March 31, 2015

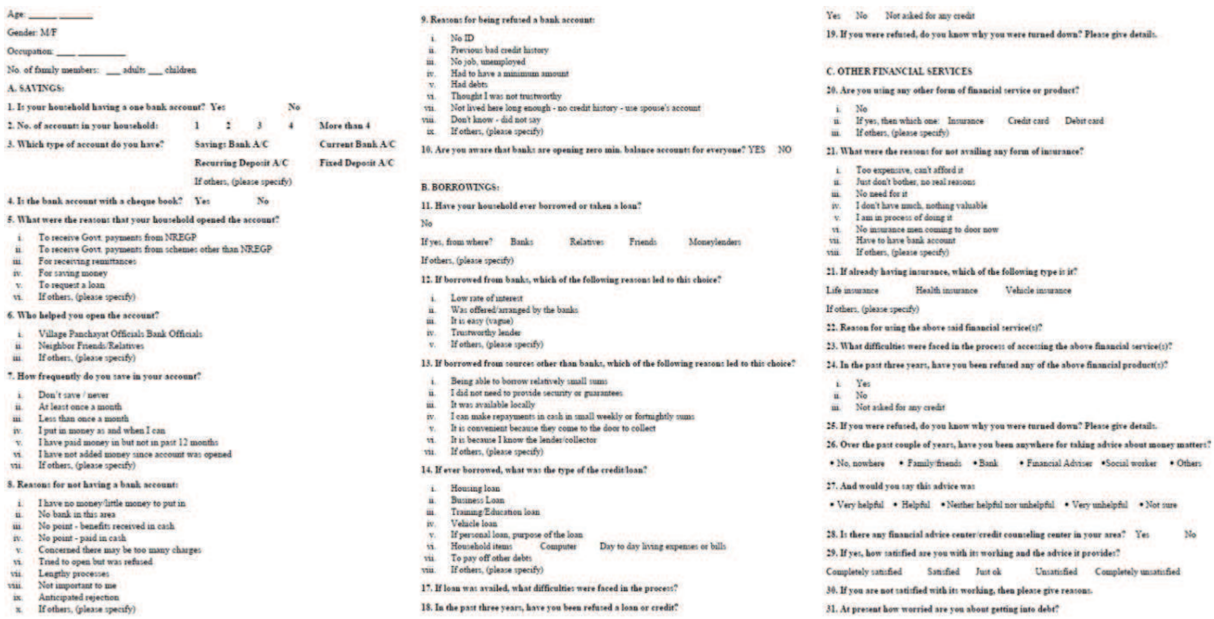
Bank Group	Rural	Semi Urban	Urban	Metropolitan	Total
SBI & its Associates	8029	6593	4304	3622	22548
Nationalised Banks	21228	16428	12604	11325	61585
Other Public Sector Banks	377	528	479	378	1762
Private Sector Banks	4302	6457	4521	4698	19978
Foreign Banks	8	12	57	247	324
Regional Rural Banks	14613	3748	1071	228	19660
Grand Total	48557	33766	23036	20498	125857

Source: http://financialservices.gov.in/

Measuring Financial Inclusion – Financial Inclusion Index: To measure the extent of financial inclusion, the first step is to identify the indicators that measure the level of accessibility of financial services in a country. Kempson et al (2004) identified six common reasons for financial exclusion even though the extent varies from country to country. These barriers are identity requirements; terms and conditions of bank accounts, levels of bank charges, physical access to bank branches, psychological and cultural influences and ease of use of banking services and to construct the survey, it is important to explore the existing dimensions and indicators and hence, is divided in two segments:

Segment 1: Mandira Sarma, (2008 a) in her concept note 'Index of Financial Inclusion' has considered three dimensions to measure the extent of inclusion namely:
1) Depth (penetration) of access using a proxy measure of the number of bank accounts per 1000 population 2) Availability to measure proximity of access using the number of bank branches and number of ATMs per 1000 population 3) Usage to measure the extent and frequency of use by the customers.
Rashmi Umesh Arora (2010) in her paper 'Measuring Financial Access' has calculated the index of financial inclusion using more variables in the outreach dimension. She also captures geographic penetration. She added the dimensions of ease and cost of transaction.

Segment 2: Sarma (2008) in her studies looks at only 'penetration (2 variables)', 'availability' and 'usage' (1 variable) for data. Arora (2010) added the dimension of outreach (2 variables), Ease of transaction (12 indicators) and Cost (6 indicators).
Thus, the survey formulated by considering these dimensions and indicators is given below and was circulated among the class 4 employee such as mess workers and security guards of BITS Pilani.


Age: _____ _____
Gender: M/F
Occupation: ____ ________
No. of family members: ___ adults ___ children

A. SAVINGS:

1. Is your household having a one bank account? Yes No
2. No. of accounts in your household: 1 2 3 4 More than 4
3. Which type of account do you have? Savings Bank A/C Current Bank A/C Recurring Deposit A/C Fixed Deposit A/C If others, (please specify)
4. Is the bank account with a cheque book? Yes No
5. What were the reasons that your household opened the account?
   i. To receive Govt. payments from NREGP
   ii. To receive Govt. payments from schemes other than NREGP
   iii. For receiving remittances
   iv. For saving money
   v. To request a loan
   vi. If others, (please specify)
6. Who helped you open the account?
   i. Village Panchayat Officials Bank Officials
   ii. Neighbor Friends/Relatives
   iii. If others, (please specify)
7. How frequently do you save in your account?
   i. Don't save / never
   ii. At least once a month
   iii. Less than once a month
   iv. I put in money as and when I can
   v. I have paid money in but not in past 12 months
   vi. I have not added money since account was opened
   vii. If others, (please specify)
8. Reasons for not having a bank account:
   i. I have no money/little money to put in
   ii. No bank in this area
   iii. No point - benefits received in cash
   iv. No point - paid in cash
   v. Concerned there may be too many charges
   vi. Tried to open but was refused
   vii. Lengthy processes
   viii. Not important to me
   ix. Anticipated rejection
   x. If others, (please specify)
9. Reasons for being refused a bank account:
   i. No ID
   ii. Previous bad credit history
   iii. No job, unemployed
   iv. Had to have a minimum amount
   v. Had debts
   vi. Thought I was not trustworthy
   vii. Not lived here long enough - no credit history - use spouse's account
   viii. Don't know - did not say
   ix. If others, (please specify)
10. Are you aware that banks are opening zero min. balance accounts for everyone? YES NO

B. BORROWINGS:

11. Have your household ever borrowed or taken a loan?
No
If yes, from where? Banks Relatives Friends Moneylenders
If others, (please specify)
12. If borrowed from banks, which of the following reasons led to this choice?
   i. Low rate of interest
   ii. Was offered/arranged by the banks
   iii. It is easy (vague)
   iv. Trustworthy lender
   v. If others, (please specify)
13. If borrowed from sources other than banks, which of the following reasons led to this choice?
   i. Being able to borrow relatively small sums
   ii. I did not need to provide security or guarantees
   iii. It was available locally
   iv. I can make repayments in cash in small weekly or fortnightly sums
   v. It is convenient because they come to the door to collect
   vi. It is because I know the lender/collector
   vii. If others, (please specify)
14. If ever borrowed, what was the type of the credit loan?
   i. Housing loan
   ii. Business Loan
   iii. Training/Education loan
   iv. Vehicle loan
   v. If personal loan, purpose of the loan
   vi. Household items Computer Day to day living expenses or bills
   vii. To pay off other debts
   viii. If others, (please specify)
17. If loan was availed, what difficulties were faced in the process?
18. In the past three years, have you been refused a loan or credit?
Yes No Not asked for any credit
19. If you were refused, do you know why you were turned down? Please give details.

C. OTHER FINANCIAL SERVICES

20. Are you using any other form of financial service or product?
   i. No
   ii. If yes, then which one: Insurance Credit card Debit card
   iii. If others, (please specify)
21. What were the reasons for not availing any form of insurance?
   i. Too expensive, can't afford it
   ii. Just don't bother, no real reasons
   iii. No need for it
   iv. I don't have much, nothing valuable
   v. I am in process of doing it
   vi. No insurance men coming to door now
   vii. Have to have bank account
   viii. If others, (please specify)
21. If already having insurance, which of the following type is it?
Life insurance Health insurance Vehicle insurance
If others, (please specify)
22. Reason for using the above said financial service(s)?
23. What difficulties were faced in the process of accessing the above financial service(s)?
24. In the past three years, have you been refused any of the above financial product(s)?
   i. Yes
   ii. No
   iii. Not asked for any credit
25. If you were refused, do you know why you were turned down? Please give details.
26. Over the past couple of years, have you been anywhere for taking advice about money matters?
• No, nowhere • Family/friends • Bank • Financial Adviser • Social worker • Others
27. And would you say this advice was
• Very helpful • Helpful • Neither helpful nor unhelpful • Very unhelpful • Not sure
28. Is there any financial advice center/credit counseling center in your area? Yes No
29. If yes, how satisfied are you with its working and the advice it provides?
Completely satisfied Satisfied Just ok Unsatisfied Completely unsatisfied
30. If you are not satisfied with its working, then please give reasons.
31. At present how worried are you about getting into debt?

Results:

Table 3: Respondents having Bank Account

Bank Account	No. of Respondents	Percentage
Having Bank Account	43	86%
Not Having Bank A/c	7	14%
Total	50	100

Source: Primary Data

Table 4: Type of Bank Accounts Preferred by the Respondents

Bank Account	No. of Respondents	Percentage
Savings Bank A/c	48	96%
Time Deposit	0	0
Recurring Deposit	2	4
Others	0	0
Total	50	100

Source: Primary Data

Table 5: Financial Products and Services Awareness among Respondents

Options	Frequency	Percentage
Very High	6	12%
High	18	36%
Average	17	34%
Low	9	18%
Very Low	0	0%
Total	50	100%

Source: Primary Data

Conclusion: From Table 3, we can conclude that Financial Inclusion, in the case of Pilani, which is a secluded town on the outer of Thar Desert and on the border of Rajasthan and Haryana, is more on the good side. This is because, although being a secluded place, we have the access to majority of financial services, and even the class 4 employees, who even get financial advices from their peers or subordinates. Along with the access to these services, there is awareness among the people about these services and the requirement to avail these services.

Although, the indices always have been accepted yardstick to measure performances as it allows the comparison between countries and establishes a ranking. This ranking can define how inclusive or exclusive are the financial services of a country While the importance of these indices is extreme, the interpretation of the same should be made with care because the values of these indices impact the financial inclusion-exclusion of a country and may not reflect the extent of impact made by the initiatives of any given country. It is therefore necessary to also measure the extent of financial inclusion within a country and study the trend without reference to the world's min-max values such that it will highlight the *absolute* performance within a country and also aid comparison over a period of time. Such an analysis will highlight the changes in the various variables included in this study and will give feedback and direction to policy makers. Further research could focus on construction of such an index.

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