A Study on Financial Inclusion of Rural Banking— With Reference to Rural Bangalore

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**ABSTRACT:**
A recent empirical evidence highlight that access to basic financial services can make a substantial positive difference in improving poor people's lives. Accordingly financial sector reforms that promote financial inclusion are increasingly at the core of policy makers’ agendas, a CGAP and the banks.

The level of banking exclusion varies across the countries and the world. However there are group of people who are affected by financial exclusion. The people who have low income, no source of regular income and who have a history of bad debts are excluded from availing the financial services and thus not considered in this study. In this background for improving access of banking services to the unbanked rural areas, Financial Inclusion has been identified as an instrument.

This paper primarily aims at understanding whether the present route of implementation of Financial Inclusion is matching with the expected direction of the policy makers. The secondary objectives are based on whether certain selected variables such as age, level of education, awareness of informal sources of financing prior to period loans and so on. The study assesses the interrelationship between these variables and the customer's perspective about the functioning of the CSPs and their expectations for better satisfaction of the usage of the services.

For the purpose of the present study the State Bank of India, which is the Lead Bank in initiating and implementing the schemes and the villages under its jurisdiction will be identified. Four villages each from four different zones are selected at random, for choosing the required samples and the primary data will be collected and accordingly analyzed.

**Key words: - Financial Exclusion, Banking Inclusion, Rural sector, CSP’s.**
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Introduction:

Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy."

Financial Inclusion broadly refers to the delivery of banking and other financial services to the people in rural villages who have had no access to these services as they are not available in the villages. This concept is also termed as Financial Exclusion. The level of banking exclusion varies across the countries and the world. However, it is the same group of people everywhere who are affected by this financial exclusion. People who have low income or no source of regular income, who lack capabilities that can be converted into labour and who have the history of bad debts and so on, are excluded from availing the financial services.

In the light of the generally accepted belief that improving access to various financial services in the hitherto neglected rural villages, Financial Inclusion as an instrument for bridging the urban-rural divide in the financial sector has been identified. Keeping in pursuance of the directions of RBI, all the Commercial and other banks have taken up the task of working towards Financial Inclusion.

Review of literature:

In 2007-08 the Government had set up two Funds i.e., Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) with a corpus of Rs. 500 crore each under NABARD. The purpose was to extend banking services to the unbanked areas. In the budget of 2009-10 the Government has further contributed rupees 100 crore to each of these funds in order to strengthen the pace of development of financial inclusion. The contributors to these funds are Government of India, RBI and NABARD.

The Finance Ministry also introduced Financial Inclusion index from June, 2010 onwards in order to assess the progress of financial inclusion at the end of every quarter and in the various regions of the country. The roadmap for expanding the penetration of banking activities in unbanked and under-banked areas was created with the help of Financial Inclusion Index. In the year 2010-11 the Ministry had identified two criteria to judge the performance of CEOs of public sector banks. The two criteria are number of additional branches covered and the new no-frill accounts opened.
But till now no systematic studies have been made to assess the progress of the Financial Inclusion and the degree of its penetration in the villages; and its impact on the lives of customers. Therefore the present study would be one among the first few scientific studies conducted in this direction. This would constitute the source for further research of this kind in the area of Financial Inclusion.

KMBL has more than 2.79 Lakh BSBDA opened under its Financial Inclusion Initiative. The Bank has started its ICT based Financial Inclusion Initiative at Mehsana & Banaskantha District of Gujarat, Silvassa district of Dadra & Nagar Haveli and Balodabazar, Bilaspur, Gariabandh & Mungeli District of Chhattisgarh by offering E-Passbook and Smart Cards along with No-Frills Accounts (BSBDA). More than 2.26 Lakh Smart Cards have been issued and 189 Customer Service Points (CSP) are fully operational offering basic banking services under the ICT based Financial Inclusion Initiative. Kotak Mahindra Bank has covered 49 villages through its own rural bank branch network and 693 villages by way of engaging Business Correspondents.

RBI's Policy on 'Financial Inclusion':

- When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India places a lot of emphasis on financial inclusion.
- With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual Policy Statement of the year 2005-2006, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion.

NEED AND SIGNIFICANCE OF THE STUDY:-

Banking/financial services are in the nature of public goods. Every citizen of India has the right to have access to these goods. The open and efficient society stresses on the need that there should be unrestrained access of all the public goods and services to all the citizens of the country. The main objective of the present Financial Inclusion (FI) policy is to make available the banking, financial and other payment services to the entire population of the country without any discrimination.

Therefore, consistent efforts are being made to examine the causes of financial exclusion; and strategies are also adopted to ensure FI of the poor and underprivileged at international level. As the reasons for financial exclusion vary from country to country, the strategies for plugging the holes of Financial Exclusion also differ. However both the developed and developing countries are making serious efforts for FI in order to bring about the balanced economic growth. In this
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context, under the directions of the RBI, India too has initiated the process of implementing the strategies for bringing about financial inclusion.

The concept of FI which was initiated to deliver banking/financial services at an affordable cost to vast sections of the disadvantaged and low income groups has been initiated in all most all the states of India. All the commercial banks have launched these services under the name “Citizen Service Point” (CSP) in all the villages with more than 2000 population, as a first phase. We have almost close to the deadline of 2012 set for achieving the 100% FI in the country. Unless simultaneous efforts are made to analyze scientifically whether the efforts being made are taking us in the required direction, we cannot avoid the danger of total deviation from the requisite track.

Under the above backdrop, the present research study is an attempt to make an analysis of, how far the set objective of FI been achieved in the direction of providing financial services in the villages and their utilization by the rural communities.

OBJECTIVES OF THE STUDY

The present research work is undertaken with the following two categories of objectives:

- **Primary Objective**: To understand whether the present route of implementation of Financial Inclusion is matching with the expected direction of the RBI.

- **Secondary objectives**:  
  1) To judge whether opening the no-frill accounts has helped the customers in avoiding accessing the informal sources. If not, to highlight the reasons for the villagers to continue to depend on the informal sources of financing.  
  2) To understand the reasons for opening the no-frills saving bank Accounts;  
  3) To highlight whether there is any relation between age and awareness about the financial services launched in the villages among the users and the non-users  
  4) To identify whether the level of education among the customers has any relation with the  
     - Awareness about the financial services launched and the method of functioning of the same among the villagers.  
     - Saving habit among the customers.  
     - Their capacity to put signature to authenticate their transactions,  
     - Their attitude to motivate others to enjoy the benefit of opening no-frill accounts.  
  5) To bring to light whether there is any relation between the awareness among the customers about the financial services offered in the villages and their approaching informal sources.
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6) To clarify whether people in villages, who have availed loans prior to the initiation of the CSP, are still approaching the informal sources of financing in the villages, to meet their financial needs?
7) To focus on the relation between the villagers’ awareness about the availability of financial services in their villages and the reasons for not using the services provided, by the non-users of the facility.
8) Finally, to collect the suggestions from the customers for improving the functional efficiency of policy towards financial inclusion.

METHODOLOGY:

All commercial banks are equally vigorously involved in implementing the scheme of Financial Inclusion. For the purpose of the present study the State Bank of India, which is the lead bank in initiating and implementing the scheme; and the villages under its jurisdiction, are identified. Four villages reflecting one each from four zones are selected at random, for choosing the required samples. From each village thus selected, a sample of 15 customers representing the users of the facility and another 15 representing the non-users of the facility, are randomly selected as respondents for the present study, on the basis of systematic sampling. This makes the total sample of the size 120, of which 60 are customers (users) of the facility; and another 60 are non-users.

A preliminary survey was conducted by the authors in one of the villages under SBI jurisdiction to make a pilot study to understand the method of functioning of the Customer Service Point (CSP) from the point of view of the Business Correspondent (BC), users and non-users point of view. Based on the knowledge gained from the pilot study, two detailed questionnaires were developed for collecting the information separately from the user and non-user respondents.

The primary data thus obtained was classified and analyzed and tested for the dependency of various factors using one of the popular statistical techniques known as the Chi-square test. This test was applied for the null hypotheses (Ho) where Ho is framed with the assumption that the attributes under consideration are not dependent on each other. The results were then interpreted; and the conclusions were drawn as follows. If the Chi-square calculated value is less than the table value, Ho is accepted, otherwise Ho is rejected. Even the percentages and graphical presentation of the results were also used where possible and necessary.

For assessing the experiences of villagers with respect to the utilization of financial services offered by banks, the following hypotheses are set:

- Ho: Opening the no-frill accounts as part of the Financial Inclusion measure has not helped the villagers in reducing their dependence on informal sources of financing.
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- Ho: Age of the customers who opened the no-frill accounts and the awareness about the financial services provided in the villages are not related to each other.
- Ho: The level of education among the customers (users) of these facilities has no relation with:
  1) Awareness about the financial services launched and the method of functioning of the same among the villagers.
  2) The saving habit among the villagers.
  3) Capacity to put signature to authenticate the transactions
  4) Attitude to motivate others about the services
- Ho: There is no relation between awareness among the villagers about the financial services offered and the need for approaching the informal sources for meeting their financial requirements
- Ho: There is no relation between the prior period loans and accessing of the informal sources of financing, to meet their financial needs.

All the above hypotheses were tested using the Chi-Square test and the data were analyzed as under:

* Accepting Ho at 5%; ** Rejecting Ho at 5%; *** Rejecting Ho at 1%.

Result of the study:-
The results of the study are discussed under four groups as:

- Implementation of Financial Inclusion.
- Experiences of the customers with financial services offered through Business Correspondents (BC) in the selected villages;
- Critical Success Factors;
- Suggestions from BCs and customers for improving the functional efficiency of CSPs for realizing the final objective of FI.

Analysis:-
Variables such as age, level of education, awareness about the CSP and various services offered at the CSP, sources of awareness, their dependence on informal sources of financing, prior period loans and so on, were chosen for analyzing their interrelationship to understand various aspects relating to launching of banking services in the villages.

The results are discussed as under:
The study reveals that opening no-frill accounts in the villages as part of the policy of FI, has not helped the customers in avoiding accessing the informal sources to meet their financial needs. This proves that making villagers open the no-frill accounts has not given them the confidence that the required financial services would be offered to them by the banks, when they need. As of now, the main reasons for their continuance of dependence on informal sources of finance appear to be: hassle free availability of funds for which no formalities are required to be fulfilled. Attached with no minimum or maximum limit, these informal sources of funds ease them from travelling long distances, avoiding waiting time in long queues if approached banks or any other botherations, besides not having any time limit for repayment of principal or the interest amount.

Interaction with the customers brought to focus that 80% of them opened the no-frill accounts with the idea of using the account to put in some amount to save for future, while 18% of them opened the account to deposit money to give education for children or meet other family requirements such as children’s marriages or construction of a small house etc. while equally 18% percentage of them said that the account could be used for any other reason like receiving scholarship for children or government subsidy or old age pension etc. 10% of the customers reiterated that they would like to use this account to get money from the bank to avoid borrowing from local money lenders. The least of 6.67% of them said that they opened the accounts to pay loan installments on their borrowings from banks.

Analysis of the relation between age of the customers and awareness about the banking services offered in the village reveals that the two attributes are independent. For getting to know about any new service launched in the villages, it is the interest in the human beings that matters and not the age factor, as proved by the study.

Acceptance of Ho for assessing the relation between the level of education among the customers; and their awareness about the financial services offered in the village; their saving habits, their capacity to put the signature, and their attitude to motivate others to use the given financial services, reveals that the level of education is independent of the all these variables. This implies that irrespective of their level of education, customers are eager to know about the new facilities that come to their village, in the present context the banking services, develop zeal to save even if it is in small amounts, learn to put signature, and if convinced ready to motivate and convince others about the facilities they are aware off. It is heartening to know that though majority of the customers are illiterates, they made efforts and learnt to put signature just with the inspiration of making use of the services available. This made the authors understand that it is very
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...easy to get the cooperation from the villagers for implementing any scheme. We can make villagers understand any philosophy through mere creation of awareness.

- Indicates that customer’s awareness about the banking services available in the villages is related to their attitude of approaching the informal sources of financing. Definitely the customers who have knowledge about availability of the present and prospective banking products in the village, have the confidence that very soon their dependence on informal sources of financing will come to an end.

- There is no relation between the customers availing loans prior to opening the no-frill accounts (Prior Period Loans) in the village and their dependence on informal sources of financing for meeting their present financial needs, as per the accepted Ho. This indicates that the customers, who have already availed loans in banks prior to opening the no-frill accounts, continue to depend on informal sources of financing for meeting their present financial requirements.

- Similarly there is no relation between the customers availing loans prior to opening the no-frill accounts (Prior Period Loans) in the village and their non-dependence on informal sources of financing for meeting their recent financial needs. This indicates that the customer’s dependence or non-dependence on informal sources of financing is based on their need for money and not on any other factor.

- Overall impact of launching banking services in the unbanked villages:

While all the customers/user and non-users in unison understand and agree that the banking services launched in their villages are definitely useful to them in general, the users of the services are still not able to assess in concrete terms whether these services have improved their present income level, saving level, children’s education, repay loans and financial freedom that would result in the betterment of their general standard of living and overall status in the society.

Suggestions:-

The suggestions offered by the Business Correspondents and the customers for improving the performance efficiency of the FI policy, are gathered and presented below:-

Suggestions from the BCs

- Helping the BCs in solving the severe network connectivity problems faced by them.
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- Giving BCs the solution to “what to do next”. Many BCs are unable to understand what is to be done next, after opening the no-frill accounts for all the villagers in their allotted villages, which meant stagnation to their income.
- Showing a continuous source of income to BCs by leveraging their services to empower the villagers on one hand; and to fulfill the purpose of setting up of CSPs on the other, by adding more banking products and services to the CSPs through BCs.
- Based on the performance of the work assigned, a certain percentage of commission on each transaction relating to every added banking product and service can be given to each BC to assure continuity to their income.
- In some villages, recognition to these banking services is forth coming only because of the confidence of villagers in the good attitude of BCs. To support BCs and to make villagers understand that the CSPs are the direct units of the State Bank of India, frequent visits of the concerned bank officers to the villages is a must, which is missing right now.
- To achieve the dual goal of empowerment of villagers and the viable functioning of the CSPs, CSPs can be used for providing more banking products and services. Helping villagers engage in income-generating activities more financial support needs to be given through CSPs, which in turn assures the support for CSPs workable functioning. This would increase the transaction rate of the CSPs besides enabling villagers in getting more banking services to their doorstep which would empower their lives.
- Allotment of a toll free number to clarify the doubts of BCs and for resolving the grievances of the customers.

Suggestions from Customers

- Replacement of the present Voucher receipt for each transaction with the issue of regular passbook.
- Issue of ATM cards at least to those no-frill account holders who fulfill the basic requirement for the same.
- The money that the villagers get under the village employment guarantee scheme presently through the post offices be routed through the CSPs accounts in the villages.
- Provision should be made for recovering the SHGs loans through these accounts which is not done at present. SHG members have to visit the bank branches for repaying their loans involving cost, time and other inconveniences.
- All the utility bill payments also may be accepted through these accounts to avoid any scope of manipulations involved in direct cash collections by the concerned clerks. (Electricity bill payments are collected directly in cash)
- Right now the old age pensions are being disbursed to them in the form of cash by the village secretary. For any reason if any person is not available at the time of distribution
he/she will not get back the amount. If this amount could be credited to these CSP accounts, all the hassles of the pensioners can be put an end to.

- CSP accounts may also be considered for banking products like sanctioning of small loans and their disbursements.
- Right now provision for opening of joint account is not there at the CSP. At least if a provision is made to open a joint account with a minor child, scholarships can be received to these accounts.
- Under the ICDS (Integrated Children’s Development Society) Female children receive money at the rate of ` 5,000 per head. If this amount could be credited to this CSP joint account of parents with the child, many problems associated with direct cash receipt and payment can be avoided.
- More efforts may be made to increase the confidence of the workers on the stability of the CSPs; and that the CSPs are part of the main Bank’s business. Assurance has to be given to the customers in the villages that whatever banking transaction takes place at CSP, it will simultaneously be done in the main bank and that it amounts to the villagers transacting directly with the bank.
- It is also suggested that loans may be given to the unemployed youth in the villages through the CSPs without any present security but based on their prospective income.
- Loans may be sanctioned based on the security of some certificates like NSCs or FDs or balances in the RD accounts through the CSPs.

CONCLUSION

The study highlights that implementation of the policy towards achieving the 100% Financial Inclusion is proceeding in the required direction as laid down by the RBI. In general the villagers expressed tremendous fulfillment over the governmental efforts for taking the banking and other financial services to their villages, only for bettering their lives. The customers also expressed total satisfaction over employing one among them as the Business Correspondent for operating the CSPs. The study further reiterated that many villagers are responding to the banking services offered in their villages due to their trust and faith in the BCs rather than based on their awareness about what is being done by the banks.

This necessitates more efforts on the part of the banks in making frequent visits to the CSPs and assuring the villagers that the CSPs are part and parcel of their overall banking business. Finally the villager wished for converting the CSPs into mini banks for getting all the banking products and services to the villages itself.

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