Think India Journal

ISSN: 0971-1260Vol-22, Special Issue-21

National Conference on Recent Advances in Commerce, Management and Computer Science (NRCACMC-2020) sponsored by

Department of Commerce, VEL TECH RangaSanku Arts College,
Avadi, Chennai-62

Held on 4th January 2020

Financial Inclusion – A Sustainable Competitive Strategy For Improving The Banking Performance and Living Standard of The Rural Population

Dr.K.Srinivasan,
Assistant Professor,
Department of Management Studies,
Priyadarshini Engineering College, Vaniyambadi,
Vellore Dt, Tamil Nadu

Dr.D.Vetrivelan,
Assistant Professor and Head,
Department of Business Administration,
Don Bosco College,
Guezou Nagar, Yelagiri Hills.
Vellore Dt, Tamil Nadu,

ABSTRACT

In order to attain inclusive development and growth in the country, the expansion of financial services to all sections of society (financial inclusion) is important as global trends have shown. Financial exclusion results in widespread disparity in incomes and earning opportunities. The essential financial services can be provided at scale through the formal banking sector to attain inclusive growth in sectors. However, there are a number of key challenges that must to be surmounted to make growth inclusive. In the point of economic development in the country, particularly in the areas of infrastructure development, manufacturing and service industry, studies on rural poverty, financial exclusion and migration of population becomes more important. Financial inclusion plays a significant role in keeping institutions that provide finance in a very steady and firm condition. Banks can

Think India Journal

ISSN: 0971-1260Vol-22, Special Issue-21

National Conference on Recent Advances in Commerce, Management and Computer Science (NRCACMC-2020) sponsored by

Department of Commerce, VEL TECH RangaSanku Arts College, Avadi, Chennai-62

Held on 4th January 2020

enjoy excellent stability when financial inclusion is attained. Hence this study has undertaken to analyze the socio-economic conditions of the rural poor people and reviewing the existing financial inclusion process among rural people. The researchers used both primary and secondary data for the purpose of the study. The multistage random sampling technique was used to pick the sample respondents and percentage and ANOVA were used to analysis the collected data. Based on analysis and findings the study, the researchers have provided suggestions and conclusions to the financial service providers to enhance the financial inclusion especially in rural areas.

Key words: Economic growth, financial inclusion, rural poor people, banking performance.

1. INTRODUCTION

As the majority of the rural population is still not included in the inclusive growth, the concept of financial inclusion becomes a challenge for the Indian economy. Since 2005, many concerted measures are initiated and taken by the Reserve Bank of India and Government of India to promote the financial inclusion but the impact of these did not yield satisfactory results. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population. A greater part of the country's population still remains unbanked. Financial Inclusion is a relatively new socio-economic concept in India that intends to change this dynamic by providing financial services at reasonable costs to the underprivileged, who might not otherwise be aware of or able to afford these services. The Constitution of India guarantees to equality of law for all its citizens and this guarantee concerns to all aspects of national life including social and economic factors. This provision was meant to be a tool especially for the upliftment of weaker sections in the country. The financial inclusion is the strategy which uplifts the disadvantaged groups by keep them away from informal financial access.

The essential financial services can be provided at scale through the formal banking sector to attain inclusive growth. However, there are a number of key challenges that must to be surmounted to build growth inclusive. The present study is an attempt to analyze the socio-economic conditions of the urban migrated poor people and reviewing the existing financial inclusion process among them and suggests changes and modification to enhance it. Over the past few years, financial inclusion has become a very famous public policy aspect in order to develop the economy in a sustainable manner. It plays a significant role in keeping institutions that provide finance in a very steady and firm condition. Banks can enjoy excellent stability when financial inclusion is attained. It also helps in minimizing the distance between financial institutions and customers, and this, in turn, assists in maintaining a healthy relationship. With financial inclusion, every economic agent in the nation will have the ability to make use of formal financial services and move towards the overall development of the economy.

GOI (2008) defines Financial inclusion 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 meaning of financial inclusion is

ISSN: 0971-1260Vol-22, Special Issue-21

National Conference on Recent Advances in Commerce, Management and Computer Science (NRCACMC-2020) sponsored by

Department of Commerce, VEL TECH RangaSanku Arts College, Avadi, Chennai-62

Held on 4th January 2020

delivery of financial services to the low income groups especially the excluded sections of the population with the provision of equal opportunities. The main target is the access of financial services for better standard of living and income. According to Chakraborty (2011), Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. This issue started gaining importance recently in the news media. However, as is the case with several issues in India, financial inclusion has remained a pipe dream with a majority of Indians continuing to lack access to banking services

- **What is the Need for Financial Inclusion?**

Financial inclusion enhances the financial system of the country comprehensively. It strengthens the availability of economic resources. Most importantly, it toughens the concept of savings among poor people living in both urban and rural areas. This way, it contributes towards the progress of the economy in a consistent manner. Many poor people tend to get cheated and sometimes even exploited by rich landlords as well as unlicensed moneylenders due to the vulnerable condition of the poor people. With the help of financial inclusion, this serious and hazardous situation can be changed. Financial inclusion engages in including poor people in the formal banking industry with the intention of securing their minimal finances for future purposes. There are many households with people who are farmers or artisans who do not have proper facilities to save the money that they earn after putting in so much effort.

➢ Benefits of financial inclusion:

- The rural people will use various banking services which enable the poorest and weaker section in society, also to step out of poverty and diminish the inequality.
- It inculcates the habit to save money and empowering weaker people thus increasing capital formation in the country and giving it overall economic boost year by year.
- This also ensures that the funds actually reach the intended recipients instead of being siphoned off along the way.
- Financial inclusion process facilitates the rural people to start their own business and increase their standard of living.
- Availability of adequate and transparent credit from formal banking channels will foster the entrepreneurial spirit of the masses to increase output and prosperity in the countryside.
- Removal of poverty and unemployment, Removal of income inequalities, Agricultural Development and Reduction in regional disparity.
- Financial inclusion helps to increase the public savings, which leads to more credit availability and reduce leakage in subsidy and welfare distribution.

➢ Challenges to Financial Inclusion:

There are many challenges faced by banks in India on financial inclusion process. Even though there are many villages in the country without bank branches, penetration of bank branches in to rural areas is difficult as they are unviable, saturated and having higher transaction cost. The villages are fragmented limiting the scale of operation of banks in rural

Think India Journal

ISSN: 0971-1260Vol-22, Special Issue-21

National Conference on Recent Advances in Commerce, Management and Computer Science (NRCACMC-2020) sponsored by

Department of Commerce, VEL TECH RangaSanku Arts College, Avadi, Chennai-62

Held on 4th January 2020

areas. This necessitates last mile of financial inclusion to be met with a combination of agents and providers through technology leverage. The present Business Correspondent (BC) model is too restrictive, cash delivery points are too modest and the ideal financial inclusion model is yet to evolve in the country. The robust financial inclusion model requires comprehensive participation of all stakeholders which is currently lacking in the country. Financial inclusion among urban poor warrants an alternate strategy as the physical access is not the critical issue here. The pricing of financial assets and services is delicate in urban areas as it should ensure the poor are able to afford them at these prices. Also urban poor, particularly the slum dwellers suffer from identification problem as they are frequently moving from one part of the city to another or from 7 one city to another. Sometimes there is a self exclusion by the poor from the formal system as they are heavily depended on the informal credit sources which cater according to their convenience. Today's complex financial services market offers consumers a vast array of products and service providers to meet their financial needs. This degree of choice requires that consumers be equipped with the knowledge and skills to evaluate the options and identify those that best suit their needs and circumstances. There is urgent need for financial education to make an informed choice from diverse options available to consumers and also refrain from financially destructive transactions. Unfortunately the level of financial literacy is very low in India. In this scenario, the Committee on Financial Inclusion (2008) gave six approaches to tackle the issue of financial inclusion in India. These include credit to the farmer households, bank advice on agriculture related matters, opening branches in villages with large population, simplification of the procedures in relation to granting of loans to small borrowers, further strengthening the SHG Bank Linkage Programme (BLP), and effective implementation of business facilitator and

Think India Journal

ISSN: 0971-1260Vol-22, Special Issue-21

National Conference on Recent Advances in Commerce, Management and Computer Science (NRCACMC-2020) sponsored by

Department of Commerce, VEL TECH RangaSanku Arts College,
Avadi, Chennai-62

Held on 4th January 2020

correspondent model. 6. Financial Innovation Efforts in India Banks were making many initiatives to improve financial innovation in India. Kisan Credit Card (KCC) Scheme was launched in 1998-99 to provide insurance cover to the farmers. In November 2005, the RBI asked banks to start no frill accounts to bring unbanked people in to the system. As on 31st March 2009, there were 3.3 crore No Frill Accounts opened by banks in India. Also General Purpose Credit Card scheme was started to ensure easier credit facility to the people without surplus. The total number of GCCs issued by banks as on end March, 2009 rose to 0.15 8 million. KYC Norms were simplified to give easy identification with the banking system. Credit innovations like micro finance credit were introduced to lend credit to large number of needy population. Self Help Group (SHG) Bank linkage programme was developed to provide requisite loan to the SHGs. Banks were started using Information Technology in a large way that are secure, amenable to audit and eventually inter operable. ATM Expansion Scheme was liberalized and Electronic Benefit Transfer (EBT) through Banks was introduced. In order to penetrate in to rural areas schemes like Liberalised Branch Expansion, Business Correspondent (BC) Model, Expansion of Banks in the North-East and Financial Literacy and Credit Counseling were initiated.

2. REVIEW OF LITERATURE

Sethy Susanta Kumar (2016) in his study has proposed a Financial Inclusion Index to measure the extent of financial inclusion across economies. Both supply side dimensions like access to savings, insurance, bank risk and demand side dimensions like banking penetration, availability of banking services and usage of banking system were used for development of index. It was observed that India is categorized on high Financial Inclusion on demand and low financial inclusion of supply side. It was recommended that GOI and RBI adopt adequate policy measures to improve supply side dimension of financial inclusion. **Pradnya P. Meshram and Abhijeet Randad (2015)** carried out a survey on 100 respondents and analyzed then percentage of population for awareness of financial inclusion from customers perceptive. The findings suggest that over three-fourths of the households had at least one family member who could read and write and in terms of livelihood, a majority of the households were involved in agricultural activities but still the awareness level of financial inclusion was very low. The study further suggests that it is not sufficient by merely opening a bank account as it will not meet the objective of financial inclusion. The common man should get the confidence to use the financial services which should be made available at their doorstep. According to **Mohan (2006),** financial inclusion offers several benefits to the consumers, regulators and the economy. The establishment of an account relationship can pave the way for the customer to avail the benefits of variety of financial products, which are not only standard but also safe. The bank account can also be used for multiple purposes, such as accessing credit, making loan or premium payments, transferring money within the country, making small value remittances at low cost, etc. **Nageswara Rao (2010)** study tries to find out the understanding of the ground level operating functionaries about financial inclusion. The primary data was collected from limited samples of 26 bank officials from different banks across the country. The study finding reveals that majority of the bankers are clear in the concept of financial Inclusion, but, the banks should conduct awareness camps about financial inclusion and the staff should be made more aware of financial inclusion. **Natrajan*et al.*, (2011)** conducted an empirical study to on the financial inclusion in Pondicherry U.T. The variables in the study are saving facility, credit management, electronic fund transfer, commercial loan, overdrafts facility, cheque facility, lowest financial service, insurance and microcredit. The findings of the study are most of the respondents opened bank account and the banks provide services only for high and middle income people and not for poor people. **Pal and Pal (2013)** in their research study examined "Income related inequality in financial inclusion and role of banks: Evidence of financial exclusion in India". The study results shows that the gender of household heads and social groups were no significant effect on the use of formal financial services by urban households. **Mondal (2015)** examined the relationship between financial inclusion and poverty and how financial inclusion can help to reduce poverty in India. The study uses secondary data on financial inclusion in India from time period of 1993-94 to 2011-12, collected from planning commission, ministry of rural development and Government of India websites and simple average method was to analysis the data. The findings of the study are: Financial inclusion to be offering incremental and complementary solutions to tackle poverty which can promote the inclusive development.

3. OBJECTIVES

- To analyze the socio-economic conditions of the rural poor people in Vellore District, Tamil Nadu
- To review the existing financial inclusion process among urban migrated poor people and suggests changes and modification to the financial service providers to enhance the banking performance.

4. HYPOTHESIS

- **H0:** There is no significant relationship between different educational level of the respondents and access to formal financial services.
- **H0:** There is no significant relationship between different income level of the respondents and access to formal financial services.

5. METHODOLOGY

The study was in descriptive in nature and used both secondary and primary data. The secondary data were collected from various published sources like journals articles, reports, e-books and websites. The primary data were collected using structured questionnaire among 100 rural people in Tirupattur District, Tamil Nadu. The multistage random sampling technique was used to pick the sample respondents and percentage and ANOVA were used to analysis the collected data.

6. DATA ANALYSIS AND INTERPRETATION

I. Demographic profile of the respondents

The demographic details of the respondents are presented in the table no.1. From the table,it is clear that 64% of respondents are aged between 51 and above. 76% of the respondents are male and 24 /% are female, 93% of the respondents are married, 29% of respondents are illiterate and 70% of respondents are having less than Rs. 5000 as income per month.

Think India Journal

ISSN: 0971-1260Vol-22, Special Issue-21

National Conference on Recent Advances in Commerce, Management and Computer Science (NRCACMC-2020) sponsored by

Department of Commerce, VEL TECH RangaSanku Arts College, Avadi, Chennai-62

Held on 4th January 2020

Table no.1 Shows the demographic profile of the respondents

Demographic variables	No. of Respondents	%
Age		
Below 30 years	10	10
31-50 years	26	26
51 and above	64	64
Gender		
Male	76	76
Female	24	24
Marital status		
Married	93	93
Single	7	7
Education		
Illiterate	29	29
Primary level	38	38
Secondary level	21	21
Higher secondary	8	8
Graduation and above	4	4
Income per month		
Less than 5000	70	70
5001-10000	18	18
10001-15000	7	7
15001-20000	5	5

Think India Journal

ISSN: 0971-1260Vol-22, Special Issue-21

National Conference on Recent Advances in Commerce, Management and Computer Science (NRCACMC-2020) sponsored by

Department of Commerce, VEL TECH RangaSanku Arts College,
Avadi, Chennai-62

Held on 4th January 2020

20001 and above	0	0

II. Access to formal financial services

The more than half of the respondents (83%) in the study area are having formal savings account and remaining 17% of the respondents don't have formal savings account. The respondents are access financial services through commercial bank (2%), regional rural banks (42%), cooperative banks (13%) and insurance companies (26%). Account opening process, documents required, and minimum balance requirements and not aware of such financial services are major reasons for the respondents to not availing of formal financial services.

III. Hypotheses testing

- There is no significant difference between different educational level and the access to formal financial services.

The ANOVA test was performed to test the above hypothesis. The table no.2 result shows that there is significant difference between the different educational level and access to formal financial services.

Table .2 ANOVA - the educational level and

Access to formal financial services

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	2.962	3	.987	2.252	.000
Within	68.766	95	.438		

Groups					
Total	71.728	98			

*Significant at 0.05 level

i. There is no significant difference between different income level and access to formal financial services.

The ANOVA test was performed to test the above hypothesis. The table no.3 result shows that there is significant difference between the different incomeleveland access to formal financial services.

Table .3 ANOVA- Income level and Access to formal financial services

	Sum of Square	**Df**	**Mean Square**	**F**	**Sig.**
Between Groups	5.761	3	1.920	4.577	.000
Within Groups	61.126	94	.420		
Total	66.888	99			

*Significant at 0.05 level

7. DISCUSSION AND CONCLUSION

According to Manisha Vikas Jagtap "Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players". There are enormous unmet potential lying in the rural areas for financial institutions. If financial institutions could successfully spout this potential there will be a “win-win” situation for institutions as well as poor people. More use of technologies helps to leveraging banking services to rural areas as it lower the cost of maintaining the account. Nelson Mandela said that “Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom. Sometimes it falls upon a generation to be great. You can be that great generation. Let your greatness blossom. Of course, the task will not be easy. But not to do this would be a crime against humanity, against which I ask all humanity now to rise up." The study found that most of the respondents have access to formal financial services. Account opening process, documents required, and minimum balance requirements and not aware of such financial services are major reasons for the respondents to not availing of formal financial services in rural area. The study findings also revealed that the accesses to formal financial services are differs from different educational and income level. The banks are given to understand that have to focus on less documentation procedure and zero balance account to attain financial inclusion. The researchers can base their future research, based on the present study as it has added to the existing literature on financial inclusion. It has proved right the view that the access of financial services differs among different income and educational level of the people. In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the rural and urban area, which still remains out of the formal financial set-up especially in the rural areas. Unfortunately it is a reality that even degree holders in India are not really financially literate. Wealth creation for the investor and the economy will remain a far-off dream, unless the common man becomes a good investor and is protected from wrong doings. We need to convert a country of savers into a nation of investors to enhance the standard of living. Financially educated consumers, in turn, can benefit the economy by encouraging genuine competition, forcing the financial service providers to innovate and improve their levels of competence.

8. REFERENCES

1. Government of India. (2008).Committee on Financial Inclusion. (Chairman: Dr. C. Rangarajan).
2. Leeladhar, V. (2005). Taking Banking Services to the Common Man – Financial Inclusion', lecture delivered at the FedbankHormis Memorial Foundation at Ernakulam, December 2.
3. Mani Arul Nandhi., (2011). The Urban Poor and Their Money: A Study of Cycle Rickshaw Pullers in Delhi. IFMR research working paper.
4. Mohan, R. (2006). Economic Growth, Financial Deepening and Financial Inclusion. Lecture delivered at Annual Bankers' Conference 2006, at Hyderabad on November 3.
5. Pal Rama.,and Pal Rupayan. (WP 2012-13). Income Related Inequality in Financial Inclusion and Role of Banks: Evidence of Financial Exclusion in India; taken online from http//www.igidr.ac.in/pdf/publication/WP-2012-013.pdf.
6. Planning Commission., (2009). Report on Financial Sector Reform. (Chairman: Dr. Raghuram G. Rajan).
7. SarojitMondal., (2015). Financial Inclusion: A Step towards Eradicate Poverty. American Journal of Theoretical and Applied Business, 1(2), 21-26. Charan Singh (2014) .Financial Inclusion in India: Select Issues, Indian Institute of Management Bangalore Working Paper No: 474
8. Gupta. Rajeev; Handa. Dimpy & Garima (2014). An Empirical Analysis of Financial Inclusion in India.
9. International Journal of Interdisciplinary and Multidisciplinary Studies, 1(5), 41-48.

10. Handoo J. (2010). Financial inclusion in India: Integration of technology, policy and market at the bottom of the pyramid. Availableat:athttp://skoch.in/fir/role%20%financial%20%inclus ion%20.
11. Joseph, J., & Varghese, T. (2014). Role of Financial Inclusion in the Development of Indian Economy.
12. Journal of Economics and Sustainable Development, 5(11), 6-15.
13. Joshi. Vikram (2014). Financial Inclusion: Urban-Poor in India. SCM S Journal of Indian Management, 1(4), 29-37.
14. Kaur Paramjeet (2014). A study on financial inclusion - Role of Indian banks in implementing a scalable and sustainable financial inclusion strategy. International Journal of Management, 5(11) ,103-11