ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

Myth about Banking Practices & Financial Inclusion among Slum Dwellers: Empirical Data from Punjab Slums

Gurmeet Singh
Research Scholar
Department of Economics
Punjabi University patiala
Email : romanagurmeet@gmail.com

ABSTRACT

Financial inclusion is a supply of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. It has become the buzzword in financial circles; but it still has a long way to go. The results of study conducted in selected slums of Punjab to gauge the nature of financial inclusion, provide valuable insights and bust certain myths about financial inclusion, particularly among the urban slum-dwellers. Out of total 400 households, 44 per cent have not any bank account. Only 49 (31 per cent) households out of 158 are saving money in banks. The valuable insight is that only two respondents know about the rate of interest earned by them on their savings. No household has taken loan from the commercial Banks, because commercial banks demand security and these households don't have any collateral that would be required as security for the loans. This bust the myth about banking practices in urban area.

Keywords: Financial inclusion, Bank account, Savings, Indebtness, Banks

INTRODUCTION

The term financial inclusion has been widely used in India for the past few years. Financial inclusion usually refers to the delivery of banking services at an affordable cost to the vast sections of the disadvantaged and low income groups (Leeladhar 2006: 73). A slightly broader definition refers to it as provision of affordable financial services, viz, access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded (Thorat 2006: 239). The Committee on Financial Inclusion under the chairmanship of C Rangarajan gives a still wider definition, which defines financial inclusion as the process of access to financial services, and timely and adequate credit supply needed by the vulnerable groups such as weaker sections and low income groups at an affordable cost (Rangarajan 2008: 26). Financial inclusion is the process

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

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 (RBI). Although the term financial inclusion is of relatively recent origin, the concept has been in vogue in India for the past 40 years. Beginning with the nationalisation of banks in 1969, efforts have been made to take the banking system closer to the people. The important measures taken towards this end included rapid expansion of the banking network, introduction of the Lead Bank Scheme and setting up of the regional rural banks. The number of branches of commercial banks increased from 8,187 in June 1969 to 59,752 in December 1990 and the population per bank office declined rapidly from 65,000 to 13,756 (RBI 2008a: 98). Since then, there has been a further increase in the number of branches. The publication on 'Branch Banking Statistics', 4th in the series, presents detailed information on 82,485 branches/offices of 171 commercial banks (CBs) in India as on March 31, 2009. (RBI 2008^439). There are 31704 branches in rural areas, 19091 branches in semi urban area and 16611 branches in urban area, and 15033 in metropolitan cities. Despites the largest strength of bank branches in urban and metro cities there were concerns that banks had not been able to include vast segments of the population, especially the underprivileged sections of society, into the fold of basic banking services. Despite all measures taken, only 246692667 or 58.7 % households in the country were availing of banking services (census of India 2011) While this proportion was 67.8 % in urban areas, it was only 54.4 % in rural areas (Census of India 2011). As the extent of financial exclusion is more widespread in rural areas, the urban areas are also largely ignored. However, it is widely known that there are pockets of poverty and exclusion in all urban areas, particularly among slum-dwellers. As per the Census of India 2011, the total urban population of India is 377 million constituting 31.2 per cent of the total population of the country. Out this urban population, about 65.5 million i.e. 17.5 per cent reside in slums. In the rural areas, the common reasons cited for financial exclusion include non existence of bank branches in an area, physical distance of the bank from the people, fixed and limited timings of the banks, lack of awareness of advantages of having a bank account, and above all, low income that make it difficult to save. In the case of the urban poor, the reasons are different. There are lots of banks in the urban areas that are not very far away from the slums. Hence, the distance of the bank from the slums cannot be a factor for financial exclusion. Further, the slum-dwellers are exposed to the city life and may have better financial awareness as compared to their rural counterparts. The incomes in urban areas may also be higher than rural areas, which would leave the people with surplus to save. Against this background, the requirement of a study on

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

financial inclusion in the urban slum areas which would yield important clues to understand the nature and extent of the problem.

OBJECTIVES AND METHDOLOGY

The main objective of the paper is to examine the extent of financial exclusion of the urban poor in the selected slums of Punjab along with their socio-economic profile. The paper is based on the primary as well as secondary data. Secondary data is taken from Slum Census of India, Census of Punjab, Government reports and other published and unpublished work. The paper is mainly concentrate on empirical work and used the technique of purposive sampling. All the Municipal Corporations of Punjab are divided into three groups, on the basis of proportion of slum household to the total households in respected Municipal Corporation. Three Municipal Corporations are selected on the basis of low, medium and high concentration of slum households to urban households. The selected Municipal Corporation are Patiala, Ludhiana and Amritsar. According to list provided by respective Municipal Corporation, we have selected 12 slums purposively, comprising 4 each from Patiala, Ludhiana and Amritsar. The selected slums of Patiala are namely, Taflajpur colony, near Railway Station, Gaaraj Basti in Kabaad Market, Parjapat Basti and Dana Mandi on Sanur Road and from Ludhiana are Rajiv Gandhi Colony, Sherpur, Jeevan Nagar and Dibi Road (Samarala Chowk). The slums selected form Amritsar are Lohgarh Gate, Lohiri Gate, Guru Arjan Dev Nagar and Indira Colony Majitha Road. From each slum, 15 per cent households are selected randomly, comprising 50 slum households from Patiala, 150 from Ludhiana and 200 from Amritsar. These 400 selected households are 15 per cent of the total 2670 households. The Table 1 shows the detailed Methodology.

Table 1: Number of Respondents Selected for the Study

Slums	Selected Slums	Total Number of Households in Selected Slums	No of Selected Households	Percentage of Respondent
Patiala	4	335	50	15
Ludhiana	4	1000	150	15
Amritsar	4	1335	200	15
Total	12	2670	400	15

Source: Field Survey 2018-19

RESULTS AND DISSCUSION

Banking Profile of Respondent

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. It has become the buzzword in financial circles; it has still a long way to go. The results of a study conducted in selected slums of

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

Punjab to gauge the nature of financial inclusion, provide valuable insights and bust certain myths about financial inclusion, particularly among the urban slum-dwellers. 176 (44 per cent) out of total 400 selected slum house have not bank account. This is shown in Table: 2.

Table 2: Bank Account

Bank Account	Patiala	Ludhiana	Amritsar	Total Selected Households
Yes	16 (32)	123 (82)	85 (42.5)	224 (56)
No	34 (68)	27 (18)	115 (57.5)	176 (44)
Total	50	150	200	400

Source: Field Survey 2018-19
Figures in the brackets indicates the percentage

Out of total 400 selected households, 56 per cent selected slum households have bank account. Substantial share of selected slum household's i.e 44 per cent do not own bank account. They are totally isolated from the banking sector. What type of financial inclusion is this? The condition is worse in the selected slums of Municipal Corporation of Patiala. Here, 68 per cent households do not have bank account. The condition is also bad for selected slums of Municipal Corporation Amritsar, here 57.5 per cent selected households do not have bank account. In selected slums of Municipal Corporation of Ludhiana, the condition is relatively better than other selected Municipal Corporations. Here 82 per cent selected slums households have bank account. Probable reason of relatively good number of accounts in selected slums of Ludhiana is that, majority of families are working in factories. The factories make compulsion for bank account. That's there is relatively good number of bank accounts.

Possession of ATM cards with Account Holders.

Further the study question about the possession of ATM cards with account holder. The results revealed that, out of total 224 account holders, 72.8 per cent account holders of selected slum do not have ATM card. They nerve approach the bank for ATM cards and bank also never approached them for same. This is the approach of our banking system. They are not living farther away from the banks but living near by the banks. Only 27.2 per cent account holders have ATM card, but the reported frequency of use of ATM cards is very low. Majority of them is not aware of functioning of ATM card and ATM machines. The status of possession of ATM card with account holders is shown in Table: 3.

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

Table 3: Possession of ATM Cards

ATM,s	Patiala	Ludhiana	Amritsar	Total
Yes	1 (6.25)	45 (36.6)	15 (17.6)	61 (27.2)
No	15 (93.75)	78 (63.4)	70 (82.4)	163 (72.8)
Total	16	123	85	224

Source: Field Survey 2018-19
Figures in the brackets indicates the percentage

The condition is worse in selected slum households of Patiala Municipal Corporation, here only one account holder have ATM card, 93.75 per cent account holders have not ATM card. The condition is also worse for selected slum households of Amritsar Municipal Corporation; only 17.6 per cent account holders have ATM cards, majority 82.4 account holders do not in the possession of ATM cards. The frequency of uses of ATM card is very low. The condition for selected slums of Ludhiana is restively better than another Municipal Corporation slums. Here, 45 (36.6 per cent) out of 123 account holders have ATM cards. But the majority 63.4 per cent account holders do not have ATM cards. These results bust the certain myths about the claims of financial inclusion.

Saving Status of Selected Households

In Economics, savings is the amount that is left after spending. But in slums, saving is the amount that is left after cutting down their basic consumption expenditures. Reduction in consumption is very necessarily for survival of their native families, because 90 per cent of selected slum dwellers are migrants. They send the saving amount to their native places. The saving status of selected slum households is presented in Table: 3. Out of total selected households, 39.5 percent households are saving the money. Per month mean saving amount is 2670 rupees. The mean saving amount of selected slums households of Municipal Corporation of Patiala and Amritsar is very low, it is just Rs 1333.3 for former and Rs 1580.3 for latter. The mean amount saved by of selected slums households of Municipal Corporation of Ludhiana is relatively good i.e. Rs 3552.2 per month. The saving data is skewed toward Ludhiana Slums, that's overall mean income is Rs 2670. But the majority 60.5 per cent households are not able to save the money.

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

Table: 3. Saving Status of Selected Slum Households

Saving	Patiala	Ludhiana	Amritsar	Total
Yes	12 (24)	90 (60)	56 (28)	158 (39.5)
No	38 (76)	60 (40)	144 (72)	242 (60.5)
Total	50	150	200	400
Per month Saving Amount	Rs 1333.3	3552.2	1580.3	2670.6
Up to Rs 500	5 (41.7)	7 (7.8)	14 (25)	26 (16.5)
Rs 501-1000	3 (25)	8 (8.9)	14 (25)	25 (15.8)
Rs1001-1500	1 (8.3)	3 (3.3)	7 (12.5)	11 (7)
Rs1501-2000	2 (16.7)	17 (18.9)	10 (17.9)	29 (18.4)
Rs2001-2500	0	1 (1.1)	1 (1.7)	2 (1.2)
Rs2501-3000	1 (8.3)	6 (6.7)	8 (14.3)	15 (9.5)
Rs3001-3500	0	0	0	0
Above 3500	0	48 (53.3)	2 (3.6)	50 (31.6)
Total	12	90	56	158
Mean Saving Amount per Month	Rs 1333.3	3552.2	1580.3	2670.6
Method of Saving				
At Home	09 (75)	55 (61.1)	39 (69.6)	103 (65.25)
At bank	02 (16.7)	32 (35.6)	15 (26.8)	49 (31)
NBFC	01 (8.3)	0	01 (1.8)	02 (1.25)
Any other	0	03 (3.3)	01 (1.8)	04 (2.50)
Total	12	90	56	158
Purpose of Saving				
Marriage of Children's	7 (58.4)	4 (4.4)	18 (32.1)	29 (18.4)
Health Purpose	1 (8.3)	5 (5.6)	5 (9)	11 (7)
Study of Children's	1 (8.3)	8 (8.9)	8 (14.3)	17 (10.7)
For Buying Durable Goods	0	3 (3.3)	3 (5.3)	6 (3.8)
Send Money to Native Place	3 (25)	70 (77.8)	22 (39.3)	95 (60.1)
Total	12	90	56	158

Source: Field Survey 2018-19
Figures in the brackets indicates the percentage

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

In slums of Municipal Corporation of Patiala and Ludhiana, 76 per cent and 72 per cent respectively do not in the position to save the money. It is only in selected slums of Municipal Corporation of Ludhiana; here 60 per cent households save the money. Out of total households which are saving money, 65.25 per cent of them retain saving amount at their house. There have slight variations among the different Municipal Corporation slums, in selected slums of Municipal Corporation Patiala, 9 (75 per cent) of the total 12 households retained saving amount at their house and in Amritsar 39 (69.6 per cent) of the total 56 are retained saving amount at their house. 55 (61.1 per cent) household of selected slums of Municipal Corporation of Ludhiana retained saving amount at their house. This method of saving is risky. But due to exclusion of urban poor from banking system, they have no option than retaining the saving money at their house.

Significantly, only two of the respondents are aware of the rate of interest earned on their savings, one is school peon (in Patiala) and second is factory worker (Ludhiana). While respondents only know that the bank is paying a minimal interest on the balances in their accounts, the precise rate was not known to them. Some guessed it and reported the same as between 1 to 6 per cent.

The purpose of saving is also studied. 18.4 per cent selected slum dwellers are saving money for purpose of marriage of the children's, especially for the marriage of their daughters. Only 7 per cent are saving money for health care or any unfortunate health issue. 10.7 per cent selected slum dwellers are saving money for their children study. Majority 60.1 per cent are saving money for sending it to their native places. They are sending money for native families. This is very necessarily for the survival of native families.

Indebtedness among the Slum Dwellers

As far as indebtedness among slum dwellers is concerned, only 13.25 per cent households have taken loans. This lower percentage of indebtedness among selected slum dwellers is not due to their higher income or lower expenditure. This is due to lack of trust in the mind of creditor. Both formal and informal sources of finance don't give the loan to slum dwellers. Majority 90 percent of slum dwellers are migrants, trust factor plays a major role in lower percentage of indebtedness. No household has taken loan from the commercial bank, because commercial banks demand security and these households not having any collateral that is required as security for the loans. They are unable to provide the same because they don't have any private property or immovable assets. This bust the myth about banking practices in urban areas. The purposes of taking loans are health, education of children, social ceremonies, and consumption and for buying durables.

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

Table: 4. Indebtedness among Slum Dwellers at Present Place

Debt Burden	Patiala	Ludhiana	Amritsar	Total
Indebted	9 (18)	19 (12.7)	25 (12.5)	53 (13.25)
No debt	41 (82)	131 (87.3)	175 (87.5)	347 (86.75)
Total	50	150	200	400
Indebted amount				
0-2000	02 (22.22)	03 (15.8)	04 (16)	09 (17)
2001-5000	01 (11.11)	05 (26.4)	05 (20)	11 (20.70)
5001-10000	02 (22.22)	04 (21.0)	03 (12)	09 (17)
10001-20000	03 (33.34)	02 (10.5)	07 (28)	12 (22.64)
20001-30000	01 (11.11)	02 (10.5)	06 (24)	09 (17)
Above 30001	0	03 (15.8)	0	03 (5.66)
Total	9	19	25	53
Source of loan				
Commercial Banks	0	0	0	0
Money Lender	0	05 (26.4)	02 (8)	07 (13.2)
Relatives & Friends	01 (11.11)	08 (42.1)	05 (20)	14 (26.4)
Shopkeeper	03 (33.33)	01 (5.2)	02 (8)	06 (11.4)
Employer	04 (44.45)	02 (10.5)	14 (56)	20 (37.7)
Finance company	01 (11.11)	03 (15.8)	02 (8)	06 (11.3)
Total	09 ()	19 ()	25 ()	53 ()
Interest on Loan				
No interest	04 (44.45)	06 (31.6)	07 (28)	17 (32)
0-18%	03 (33.33)	01 (5.2)	03 (12)	07 (13.2)
18%-24%	02 (22.22)	03 (15.8)	10 (40)	15 (28.3)
24%-36%	0	01 (5.2)	03 (12)	04 (7.6)
36%-60%	0	08 (42.2)	02 (8)	10 (18.9)
Total	09	19	25	53

Source: Field Survey 2018-19

Figures in the brackets indicates the percentage

Only 11.3 per cent households have taken loan from a financial company. They are mostly permanent migrants and having good rapped with financers. The rate of

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

interest on loan charged by Financial Company is very exploitative i.e. 36 per cent, one household is from of selected slum of Municipal Corporation Patiala, 3 households from selected slums of Ludhiana Municipal Corporation and 2 are from selected slums of Amritsar Municipal Corporation. 37.7 per cent selected slum households are indebted of their employer. The rate of interest charged by employer on loan is very high, i.e. 24 per cent, which is very exploitative in nature. Leave the principle amount of loan; the slum dwellers are unable to pay the rate of interest.

This bound persons like slaves to employer. 26.4 per cent are indebted of shopkeepers. They have taken loan for the consumption purpose and they are not aware about the rate of interest charged by the shopkeeper. It is also significant that, despite the presence of public commercial banks in the vicinity of the slums, no household is taking loan from the commercial bank.

Frequency of Annual Usage of Saving Bank Accounts by Selected Respondents

The position regarding annual frequency of usage of the bank accounts is shown in Table: 4. 50 per cent respondents do not regularly maintaining their accounts. They never visit the bank after opening the bank account. The percentage is very high in the selected slums of Municipal Corporation of Patiala, here 75 per cent respondent never visit the bank from last one year. The percentage for selected slums of Municipal Corporation of Ludhiana and Amritsar is 44.7 and 53 per cent respectively. 63 (28.1 per cent) out of 224 are visiting the bank up to six times in a year for using the account. 26 (11.6 per cent) respondents are used bank account to 7- 12 times in one year and percentage is much lower of those who use their account to 12 times in a year.

Table 6: Frequency of Annual Usage of Saving Bank Accounts by Selected Respondents

Frequency of Annual Usage	Patiala	Ludhiana	Amritsar	Total
Not at all	12 (75)	55 (44.7)	45 (53)	112 (50)
Up to six times	3 (18.75)	40 (32.5)	20 (23.50)	63 (28.1)
7-12 Times	1 (6.25)	13 (10.6)	12 (14.10)	26 (11.6)
Over 12 Times	0 ()	15 (12.2)	8 (9.40)	23 (10.3)
Total	16	123	85	224

Source: Field Survey 2018-19
Figures in the brackets indicates the percentage

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

Conclusion and Policy Implications

The findings of the study provide valuable insights and bust certain myths regarding financial inclusion, particularly among the urban slum-dwellers. Majority of slum households have not bank account in any bank. This poor percentage can be drawn in the cities of Punjab and in areas surrounded by bank the branches clearly indicate the poor state of financial inclusion of the down droned. It highlights the pressing need to step up efforts towards including of the excluded. The role of public banks in this area needs to be examined.

Second, 176 households did not have a bank account, only 7 persons had ever tried for opening a bank account in the past. The remaining had never approached a bank. This shows lack of income, awareness of proper proof, non-availability and requirement of the poor. One respondent could not do so as he could not get anyone to introduce him to the bank. Whether it is due to the elitist image of banks or unawareness of the products of banks needs to be studied in detail.

Thirdly, no household have taken loan from the commercial Bank, because commercial banks demand security and no household having any collateral that would be required as security for the loans. As a consequence, the slum dwellers take loan from private institution which exploits them. It must be corrected. Therefore, the banks should design and market appropriate products for this clientele, which is important.

Fourthly, as the proof of identity is concerned, a significant proportion of slum dwellers do not have proper proof of identity. There is need to address this problem immediately.

Fifthly, only 61 out of 224 persons with bank account possessed ATM card. It indicates towards lake of income and awareness. The banks should provide the valuable information to the customers, especially disadvantage group of urban poor.

Sixthly, not a single respondent knows about the rate of interest earned by them on their savings. This is shameful on the banking practice. It must be corrected.

It may thus be concluded that although financial inclusion has become the buzzword in present-day financial circles, there are miles to go before it becomes a reality in the urban slums.

REFERENCES

BHATIA, N. & CHATTERJEE, A. (2010). Financial Inclusion in the Slums of Mumbai. *Economic and Political Weekly, 45*(42), 23-26.

Joshi, D. P. (2011). Financial inclusion and financial literacy. In *Bi OECD Seminar on Financial Education and Inclusion Programs in India*.

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

Leeladhar, V. (2006). Taking banking services to the common man–financial inclusion. *Reserve Bank of India Bulletin*, *60*(1), 73-77.

Rangarajan, C. (2008). Report of the committee on financial inclusion. *Ministry of Finance, Government of India*.

Thorat, U. (2006). Financial inclusion and millennium development goals. *RBI Bulletin*, *50*(2), 239-43.

RBI. (2009): Branch banking statistics. Volume 4.