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A Study On Financial Inclusion In Public Sector Banks South India

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ABSTRACT

Lot of discussion is happening about the role of financial products and markets in improving livability standard of people and real economic activity. In Western nations such as the U.S., debate is on the financial sector becoming inefficiently huge and has been providing complex products to consumers like households and firms, whereas in many emerging and developing nations, there has been a significant push to increase the usage of financial products. Indian banking industry has attained substantial improvements in all the areas relating to financial feasibility, profitability and competitiveness and has depicted growth in branch and ATMs penetration in the last few decades. Despite these success and efforts, banks were not been able to pull the vast segment of the populace especially the underprivileged into the basic banking services. The paper finds out how far the commercial banks are able to overcome the barriers such as the lack of reach, mounting cost of transactions and time taken in providing those services to people with a special focus on select villages from Southern part of India. This paper also studies the key drivers of financial inclusion (FI) by using micro and regional data to understand the crucial factors that could stimulate FI.

Keywords: Financial inclusion, South India, Public Sector Banks, Bank Account, Banking Services

MEANING AND SCOPE OF FINANCIAL INCLUSION

The foresight of Millennium Development goals of United Nations, “growth and equity” visualizes that due to race for growth, the world in 21st century has left a portion of people in bottom of pyramid. The acceleration in Gross Domestic Product (GDP) can happen in the world economies only if the deprived sections are pulled into the mainstream of growth. Poverty anywhere is a serious threat to prosperity everywhere and that is also one of the reason post 2008 economic crisis a new global phenomenon became the center of study. World institutions and central banks undertook variety of monetary studies that focused attention to unbanked community groups and propagated to the inclusive financial terms, with different definitions (Beck et. al.,2008). More than 60 countries have adopted financial inclusion(FI) as one of the key reform agendas and it’s akey aspect of several of the UN sustainable development goals. This thrust is driven by the fact that approximately two billion adults around the world do not have financial access. Of those who have access, approximately 40% actually use it. In India alone, there were approximately 450 million unbanked adults as of 2013(RBI website, 2017).Financial exclusion or inclusion has been referred in the literary work as social inclusion in the broader sense. Lusardi & Mitchell (2008) also stays with this concept by referring to this process as prevention of certain social class or groups or individuals from gaining access to formal financial system. Financial products and services contribute to the economic development of the people and tis in turn leads to umbrella that protects from economic shocks (World Bank, 2011). Hence, each and every individual need to be equipped with knowledge of financial products as well as provided with affordable products popularly called

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"Financial Inclusion" (Kendall, 2010).The Reserve Bank of India (RBI) defines FI as the process of guaranteeing access to financial services and timely availability of credit to the vulnerable groups such as weaker sections and low income groups at an affordable cost (RBI Website, 2017). Rangarajan and Raghuram Rajan Committees explains FI as universal access to a broad range of financial facilities at a competitive cost and this include not only banking services but also other financial services offered by insurance and equity products (Rangarajan,2008&Gupta, 2011). The financial services is inclusive of bank account, availability of credit, savings, a safe place to save, future remittance and payments and so on (Rangarajan, 2008; Chakrabarty, 2012). Extensive use of bank deposits leads to a more stable deposit base for financial institutions in risky times and can guarantee financial stability in the system (Joseph, 2010, &Dupas , 2013).
Since banking services in most of the nations are in the nature of public good, it therefore becomes the primary objective of the public policy to provide basic banking and payment services to the whole population without any discrimination (Claessens, 2005&Klapper, 2013). Indian banking industry has achieved tremendous growth in branch penetration and ATMs penetration as well as areas relating to profitability, competitiveness and financial feasibility (Rao&Rahat, 2011). Despite these, there are trepidations that financial institutions have not been successful in including vast segment of the population particularly the underprivileged ones. More research and studies are done to understand the causes of financial exclusion and to suggest the remedies to eradicate the same. The reasons and the strategy may vary from state to state (Leeladhar, 2005). The scope of FI can be very well penetrated through state-driven policy or through voluntary effort by the banking and other insurance bodies (David Fielding, 2003 &Radcliffe, 2012). Consequently, an all-inclusive FI ecosystem shall consist of cooperatives, banks, microfinance and insurance institutions (Azam 2003). Thus the scope of FI is much broader and is considered to be extremely important for achievement of sustainable as well as inclusive growth in an economy (Romer and Romer, 1999).

LITERATURE REVIEW

This paper contributes to the existing literature on financial inclusion with respect to the challenges faced by public sector banks in reaching out to people as well as the key drivers of FI. Recently there have been several studies on FI at national and global level. Bruhn &Inessa (2014) examined the FI at global level to identify key indicators that measures use financial services among adults in 148 nations. Their findings reveal significant differences between regions, income levels and individual characteristics and also identified a set of variables that focus on ownership of formal account, savings behaviour, source of borrowings, and use of credit cards. A similar study was done by Allen et al (2012) on 123 countries using individual and nation characteristics that are related to ownership and utility of formal accounts. He found that greater FI is linked with lower banking costs, proximity to branches and less documentation requirements to open an account. Fungacova and Weill (2015) made a comparative study of China vis-a –vis other BRICS (Brazil, Russia, India and South Africa) nations and concluded a higher FI in China due to liberal use of formal account and savings in comparison other nations under study. There were other variables which contributed to FI like higher disposable income, better education and gender equality coupled with empowerment. Beck, Demirgüç-Kunt, & Soledad Martinez Peria, (2006) suggests that in developing countries, the barriers to FI are considerably higher than in developed ones. Radcliffe (2012)reiterate that due to these restrictions, inclusion in developed countries remains low among the most disadvantaged groups including children and youth.
In the context of India, Bhanot et al (2012) identified that level of FI is influenced by income, awareness, perfect information on financial products, and proximity to financial institutions. Nandru and Byram (2014) explored the factors that determine the FI in Andhra Pradesh and found

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that population, sex ratio, branch count, literacy level and ratio of deposit to credit penetration show significant impact on FI. Beck et al (2007) suggests that the Post Office Saving Bank (POSB) to be tapped more for higher FI in rural India where Microfinance Institutions (MFIs) have limited presence. Reddy (2010) in his paper suggested banks to establish mobile-banks or commercial representatives and agents who operate on commission basis rather than by self-help groups. These two, he suggested would be cost effective and can be scaled up as well. Arora and Meenu (2012) studied the impact of microfinance as a motivator to FI with reference to Punjab.

METHODOLOGY TO ASSESS BARRIERS FOR FI:

The data for this research is based on structured questionnaire with respect to usage of financial products and access to banking services with a sample of 175 people based on convenience sampling. In Tamil Nadu there are 32 districts, 215 sub-districts, 1097 towns and 15979 villages (Census 2011). These villages are further divided into blocks and we randomly picked 5 blocks for our study with 35 respondents in each block again on random basis. Snow ball approach method was also used to conduct in-depth interview with bank officials to understand the challenges they faced in fulfilling the minimum requirement for FI. We used five point Likert scale with Strongly Disagree representing (1) to Strongly Agree representing (5) and sixteen items were developed to capture the factors for FI. Finally, we arrived at five factors that measured FI at micro level and thus the study used factor analysis to measure FI. Factor loading is significant if it is > 0.50 and in this study items loaded under each factors are > 0.50. Values lower than 0.5 indicate an unreliable scale (RBI,2005). Kline (1999) noted that for cognitive tests the generally accepted value is 0.8 and for ability kind of test a cut-off point of 0.7 is acceptable. Our scale value in this study is 0.78 which is at acceptance level. Relevance of factor analysis is tested using Bartlett and Kaiser-Meyer–Olkin test. KMO provides the overall sampling adequacy and can be calculated at individual and multiple variable levels (Banerjee & Esther, 2007). The KMO statistic varies between zero and one and the accepted value greater than 0.5 (Kaiser,1974) and this study has the value of 0.68 which falls within the acceptable limit with composite reliability of all latent constructs exceeding the proposed value of 0.5 making the measurement is appreciable. Bartlett's test of sphericity has taken the value of 761.15 and indicating significant correlation among the items of the constructs.

TABLE 3.1:
KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.68
Bartlett's Test of Sphericity	Approx. Chi-Square	761.15
	Df	91
	Sig.	.000

Source: Authors calculation based on survey

The study is based on hypotheses that measures perception of respondents towards various micro indicators of FI with respect to gender, income, education level, occupation and age group. The Principal component analysis came out with following variables namely, Purpose of account; Frequency of Use; Convenience; Ease of using banking products and Proximity to branch.

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Extraction values in the communities are between 0.78 and 0.56 but Varamix rotation all the fourteen items were grouped in to 5 factors which together gave 66.4 of loading and were named indicating the FI.

TABLE NO 3.2
TOTAL VARIANCE EXPLAINED BY ITEMS

	Initial Eigenvalues		Extraction of Squared Loading		Rotation Sums of Squared Loadings	
	Total	%of Variance	Total	%of Variance	Total	%of Variance
Bank branch is close to home	3.72	27.15	3.6	26.7	2.5	17.7
bank loan is easy on account	1.7	10.92	1.7	12.1	2.8	14.3
Its simple to open account	1.3	9.38	1.3	10.7	1.61	13.5
I can avail subsidy	1.3	9.6	1.4	9.6	1.7	11.31
I can save money	1.8	7.8	1.9	7.87	1.4	10.3
My money is safe with bank	.89	6.4				
Working hours are comfortable	.75	5.6				
I can raise loan against my property	.73	4.9				
ATM is comfortable	.59	3.9				
Insurance scheme is easy with account	.460	3.7				

Education loan is available through account	.423	2.19				
Bank people are congenial	.376	2.89				
I save money by transaction through bank branch	.266	1.9				
I am aware of finance products	.25	1.66				

Note: Extraction Method is Principal Component Analysis

Having a bank account serves as an entry point into the formal financial sector and its easy to transfer money be it wages or government subsidy (Demirguc-Kunt and Klapper, 2012). In this study the purpose of opening bank account with male population of mean score is 4.2 which is higher female mean value is 2.9 depicting men to be more comfortable with banking services (FoudaEkobena, 2014). Ownership of bank account is one side coin of determine the financial inclusion. The other side is to know the "usage" which is the frequency of account use. In our estimation, we focused on frequency of withdrawals and frequency of savings is the actions are actively initiated by the both male and female account holders. The age factor is also show significant impact on frequency of use banking services in this case the p-value (0.002) is less than 0.01, so null hypothesis is not accepted at 1% level of significance. Income, education and occupation level are also show significant impact on frequent usage of banking services, so null hypothesis is not accepted at 1% level of significant and p-value (0.002, 0.000 and 0.000) respectively. In case of gender, income and education qualification levels are not showing significant impact on convenience of banking services but age and occupation point of view show significant impact on convenience of banking services. Distance from nearest banking services is an important determinant of accessing financial services (Topoworski, 1987). Residents of remote and hilly areas are more likely to be financially excluded population (Kempson & Whyley, 1998). Another study on financial inclusion in north-east India reveals that financial services through post office emerges to be far significant than distance form bank. With increasing distance from post office and bank branch the chances of inclusion also decline (Bhanot et al, 2012). This study indicates that in South Indian villages gender and age are not significant while considering the proximity to the bank branch.

TABLE NO 3.3
INDEPENDENT SAMPLES T-TEST (GENDER PERSPECTIVE)

Factors	Statement of Hypothesis	Results (p<0.05/0.01	Accept /Reject
Purpose account	There is no significant difference between Purpose of opening bank account and male and female	0.03*	Reject
Frequency of Use	There is no significant difference between Frequency of Usage and male and female	0.00**	Reject
Convenience	There is no significant difference between	0.4	Accept

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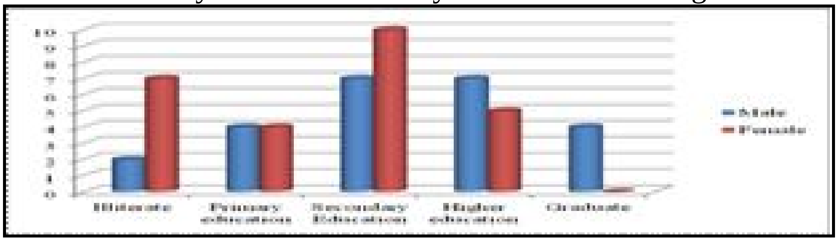
	Convenience and male and female		
Ease of using banking products	There is no significant difference between Easiness in accessing bank and male and female	0.005**	Reject
Proximity to branch	There is no significant difference between proximity with bank branch and male and female	0.78	Accept

NOTE: * Denotes significance at 5% level and ** denotes significant at 1 % level

Few demographic analyses in the charts below also indicates the low profile of female towards financial literacy. Chart1: Literacy level in select villages in South India



Source: Survey report, May 2017

The female in the down south villages are more sensitive towards getting themselves educated up to secondary level. The families play a major role in deciding on the education of female child and one of the reasons quoted is cost factor as well as early marriage. The level of education is an important factor to understand the financial products of banks as well as inquisitiveness towards self-empowerment and financial literacy.

CHART NO 2
REPRESENTATION OF RESPONDENTS BEING AN INTRODUCER TO THE BANK

Gender	Description	Number of valid responses	Relative	Neighbor	Total
Male	Count	14	1	9	24
	% within Gender of the Respondent	0.58	0.04	0.38	1.00
	% within respondent's being an introducer for opening bank account	0.42	0.25	0.69	0.48
Female	Count	19	3	4	26
	% within Gender of the Respondent	0.73	0.12	0.15	1.00
	% within Respondent's Being an introducer for opening Bank Account	0.58	0.75	0.31	0.52

Source: Survey report, May 2017
The chart above indicates, majority of the female respondents have not been introducers compared to male respondents and we could attribute level of illteracy to that to a greater extent. Penetration

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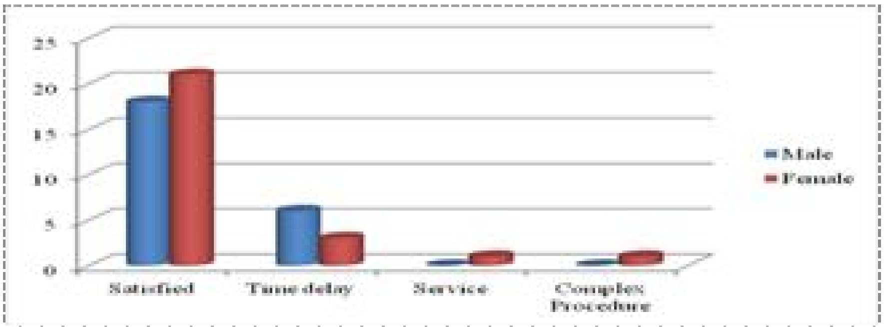
to higher level education for female would lead to better financial inclusion in rural villages. Those who are aware of the financial products also introduce the same to relatives as well as neighbour.

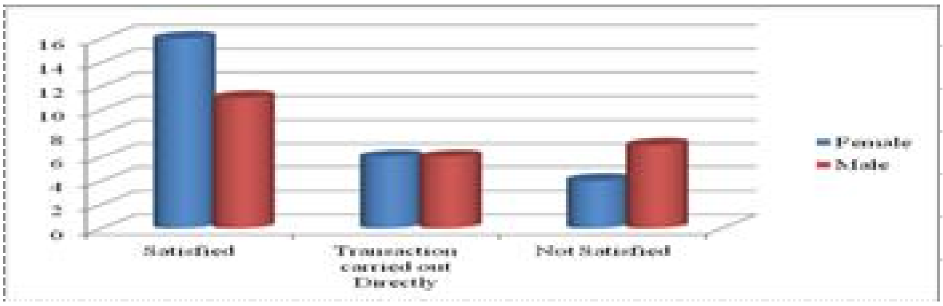
CHART 3
CHALLENGES OF FACED BY VILLAGERS



Source: Survey report, May 2017

Though majority of the respondents were satisfied with the services offered by banks, they do face difficulties related to delayed in the account opening and the complexity the bank services, the rest of the respondents faced difficulty of time delay, service and complexity in procedure.

CHART NO 4
RESPONDENTS OPINION ABOUT BUSINESS CORRESPONDENT



On the whole, the respondents were satisfied with the business correspondent or executives from public sector banks. Compared to male respondents, females appear more satisfied and this could be due to lack of knowledge of finance products and operations. Since the awareness level is very low the expectation from banks are also not much prominent.

According to Muthupandi, one of the branch manager of Canara Bank in South Tamil Nadu:

“We have launched Canara Gramina Vikas Vahini vehicles in 50 districts all over the country. These vehicles are accompanied by an AEO/Officer well versed in agricultural advances. The vehicle provided in each village will be used to visit the branches there. The officer accompanying the vehicle will give the information about the banking products and services to the rural people. The vehicle is provided with the account opening forms and the brochures of various schemes of our Bank for the benefit of the rural people.”

Another staff of Indian bank Subramani said:

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We have formed 262 new farmers' clubs on a single day, during the year (2015). Cumulatively (September 2017) the bank has formed 1052 Farmers' clubs. These clubs disseminate information about the financial products of our bank to the rural people. The clubs also give the information about advanced technology in agriculture and improvement in production. Bank has also come out with two financial literacy booklets, namely 'Money' and 'Savings'. The booklets are provided to all our lead district offices, Rural Branches and Farmers' clubs to make them available to rural people. Dedicated delivery through Microfinance branches (19 slums in urban centres) -10 branches proposed sensitizing staff through training on financial inclusion."

We also interviewed one of staff who had been promoting the bank to village people. We asked him about the reach of micro finance in comparison to bank, he said:

" Even though microfinance institutions are gaining popularity and success and they are into their business with full force, they are not able to penetrate the market as their staff lack in training and also charge more rate of interest. People here trust us (Government banks) more than private entity"

CONCLUSION

It's a long path ahead to taste the success of financial inclusion. Until and unless there is a measure on the effective performance of banks towards financial inclusion, the path of success can never be traced. Banks have initiated in providing new products and services for the people but the reach of those products are low due to the lack of knowledge about the products. The banks can still continue the awareness campaign effectively so that the reach can be attained. Over a period of time banks have become effective in reducing its transaction cost. Its also effective in its services since very few had problems in delayed services, which can also be minimized if the banks increases its branches so that people could access easily. The success of FI lies on supply as well as demand side (bank and people). FI is no longer is an option but has already become a target for banks as well as a compulsion. It has become compulsion on demand side to receive Government benefits and targets for banks. Financial products need to be well structured to include savings, payments, availability of credit and insurance products to people at an affordable cost. This inclusive financial system allow broad access to appropriate financial services to the benefit of public specifically economic development of the poor people and other disadvantaged groups in society.

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