

Financial Inclusion and Social Change

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Abstract

In India it has been observed the weaker section has always been kept away from the banking fold because of their lower income and poor banking awareness. The weaker section is always in dearth of credit facilities at affordable cost and at the time of their need. The Indian Financial System is considered to be one of the best in the world yet the financial awareness and the availability of financial services is very less in the rural parts of India and especially to the weaker section, globally referred to as 'bottom of Pyramid'. This segment needs financial assistance in order to sail them out of their conditions of poverty. Financial inclusion is intended to connect people to banks with consequential benefits. Financial Inclusion includes credit facilities, financial awareness, and knowledge about banking facilities and most importantly makes them financially literate. This paper intends to study the role of financial inclusion in bringing social change and alleviating poverty. It will study the measures taken by banks in rural areas to uplift the weaker segment and study the perception of the target segment regarding these measures. And lastly to suggest a model that will increase the efficiency of banks in this regard.

Keywords: Financial inclusion; RBI; Government of India; Social change; Alleviating poverty; Banks; Financial services

Introduction

In India, the basic concept of financial inclusion is having a savings or current account with any bank. But In reality, it includes loans, insurance services, and much more [1].

Basically it is the delivery of banking services at an affordable cost and in a fair and transparent manner to the vast sections of disadvantaged and low income groups. As banking services are in the nature of public good, it is essential that banking and payment services should be available to the entire population without discrimination [2].

Rangarajan's committee on financial inclusion defines it as: "Financial inclusion may be defined 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" [3].

It is seen that poor or weaker sections are ignored by financial institutions assuming that there is no business opportunity in offering services to them.

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of Banks efforts to promote inclusive growth [4-6]. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty [3].

About three quarters of the Indian population lives in rural areas and dependent mainly on agriculture.

According to RBI,

41% of the population in India is unbanked.

40% is unbanked in urban areas.

60% is unbanked in rural areas.

Higher in North Eastern (63%) and Eastern regions (59%).

51.4% of farm households have no access to formal or informal sources of credit.

On the supply side, poor individuals and small and micro-

enterprises often have difficulties in accessing formal sources of credit. They have to rely on personal savings or internal sources to invest in health, education, housing, and entrepreneurial activities to make use of growth opportunities [6]. Banks are expected to mitigate the supply-side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. On the demand side, lower income and/or asset holdings also impact significantly on financial inclusion. Agriculture plays a central role here, as the majority of India's population derives employment from this sector. Agriculture thus is important not only for high growth but also inclusive growth [7].

Marginal farmers, landless laborers, self-employed and unorganized sector enterprises, urban slum dwellers, migrant's ethnic minorities and socially excluded groups are some of the financially excluded groups in India. The denial of the basic financial services to some of the sections of the society happens because these groups are either considered to be less profitable by the main stream providers or due to the inbuilt intricacies in the delivery of the financial services to the fringed sections of the society [8]. Besides this, people may not be able to avail the financial services owing to the number of following reasons (Figure 1).

Literature Review

According to Dr. Chakrabarty, Deputy Governor, Reserve Bank of India, "Economic growth in India has not been inclusive; unemployment and poverty remain high and a vast majority of the population remains excluded from health and education facilities." In order for growth to be inclusive, there needs to be not only the creation of economic opportunities, but also equal access to them [9,10]. Inclusive growth can, thus, also contribute to poverty reduction by

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creating productive economic opportunities for poor and vulnerable groups. This address given by the Deputy Governor of the Reserve Bank of India discusses the important contribution of financial inclusion as a driver of inclusive growth.

The Eleventh Plan Document tries to restructure the policies in order to make the growth faster, broad-based and inclusive by reducing the fragmentation of the society [11]. It clearly stated that "The development of rural India is an imperative for inclusive and equitable growth and to unlock huge potential of the population that

is presently trapped in poverty with its associated deprivations' [12]. Huge investments in education and health, and rural infrastructure were the key elements of the inclusive growth strategy as envisaged.

Objectives

To study the role of financial inclusion in bringing social change and alleviating poverty. It will study the measures taken by banks in rural areas to uplift the weaker segment and study the perception of the target segment regarding these measures. And lastly to suggest a model that will increase the efficiency of banks in this regard.

Hypothesis

All the factors (Education, Income, Life style, Technology, Social activities like marriage, mundane etc.) are positive outcome leading to Social Change. No frills saving accounts and overdraft facility of Financial Inclusion are most important factor for Bottom of Pyramid consumers. There is associative relationship between Financial Inclusion social changes [13,14].

Financial Inclusion in India

Historically the Reserve bank of India (RBI) and the Government of India (GOI) have been making efforts to increase banking penetration in the country (Figure 2). The poor people which constitute a major portion of excluded were previously considered unbankable; efforts were being made to make them bankable and are now even considered bankable [15].

Background (Panchsheel Nagar, Hapur)

Hapur is a medium sized city with a population of about 262,801.

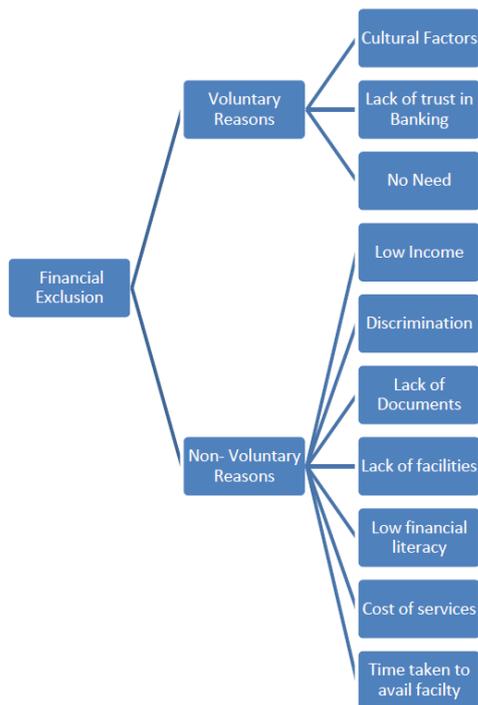


Figure 1: Reasons that do not avail financial services.

Panchsheel Nagar (Hapur region)			
Details	Total	Males	Females
Population	2,62,801	1,39,694	1,23,107
Literates	1,70,325	98,394	71,931
Average Literacy (%)	75.34	82.08	67.72
Sex ratio	881		

Table 1: Details of Panchsheel Nagar, Hapur.

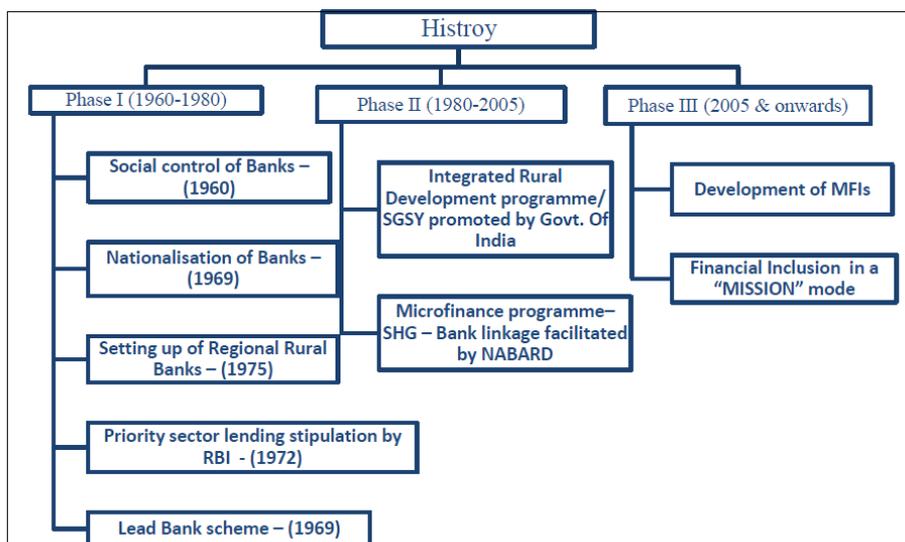


Figure 2: History of banking.

Services	Yes	No
No frills account	31	19
	62%	38%
Core banking	41	8
	84%	16%
E-banking	25	25
	50%	50%
Mobile banking	25	25
	50%	50%
Issue of kisan credit card	15	35
	30%	70%
Biometric ATM		50
		50%
Microfinance	30	20
	60	40
Ties up with NGOs	17	33
	34%	66%
Advertisement for financial inclusion	20	30
	40%	60%
Business correspondent model (Smart card system)	16	34
	32%	687%
Financial Literacy and Counseling Centre (FLCC)	10	40
	20%	80%

Source: Primary data

Table 2: Measures taken for financial inclusion.

Problems	Highly Agree	Agree	Disagree	Highly disagree
Improper repayment	31	16	2	1
Need for additional employees	23	22	5	-
Consume more time	19	29	2	3.34
Difficult to canvass	23	22	3	2
Heavy workload	21	21	8	-
Requires high cost	19	21	6	4
Low consumer awareness	8	20	22	-

Source: Primary data

Table 3: Problems involved in financial inclusion.

Situated about 60 km from the capital of India, New Delhi. This city is also the headquarters of Panchsheel Nagar district. It was earlier known as 'Haripur' [16,17]. The city comes under Delhi-NCR region. Hapur/ Panchsheel Nagar is declared as new/independent Distt on 28 Sep 2011. According to 2011 census the population and other details of Hapur are showed in Table 1 [18].

Analysis and findings

1. The researchers interviewed 50 bank managers of different branches in Hapur, Ghaziabad providing Financial inclusion fully or partially. It was found that the banks are providing services like No Frill accounts, Cash deposits and Withdrawals, overdraft facility, loan disbursement etc.84% bank branches are providing core banking services and 62% bank branches are offering no frill account facility as shown in Table 2.

2. Further analysis explained that the banks are faced with high operating cost in extending the financial services to the remote areas. High maintenance cost of these accounts as well as small ticket size of the transactions is also adding to the problem. Reaching out to the illiterate people or people who can handle only the regional languages is also difficult without developing a suitable communication mode.

The challenge also lies in offering a single loan product which is not based on or linked to the purpose of the loan, the collateral or assets held or income earned by the household but is purely based on cash flow and credit record of the household. Table 3 shows the problems of banks in financial inclusion [19]. As per the below table, it is noted that few problems were highly agreed and few were agreed by the banks. The banks highly agreed on improper repayment (3.54), need for additional employees (3.36), consumes more time (3.34), difficult to canvass the customers (3.32), heavy work load (3.26) and requires high cost (3.10). The banks also agreed on low consumer awareness (2.72). Hence, the main problem associated with financial inclusion is improper repayment.

3. The first Hypothesis all the factors (Education, Income, Life style, Technology, Social activities like marriage, mundane etc.) are positive outcome leading to Social Change was tested by Factor Analysis using Principal components methods of factor extraction with varimax rotation. The value of KMO measure of sampling adequacy comes out to be .533 and the Bartlett's test of sphericity was found to be significant, depicting that factor analysis can be applied to the data. The factor loading for all was above 0.5. However in use technology (.896) is one of the most important factors in bringing social change and change in lifestyle (.677) is the second important factor. Hence the hypothesis is proved. All the factor loading values are mentioned in Figure 3 (Showing an associative relationship between financial inclusion and social change).

4. While analyzing the second hypothesis (H2) - No frills

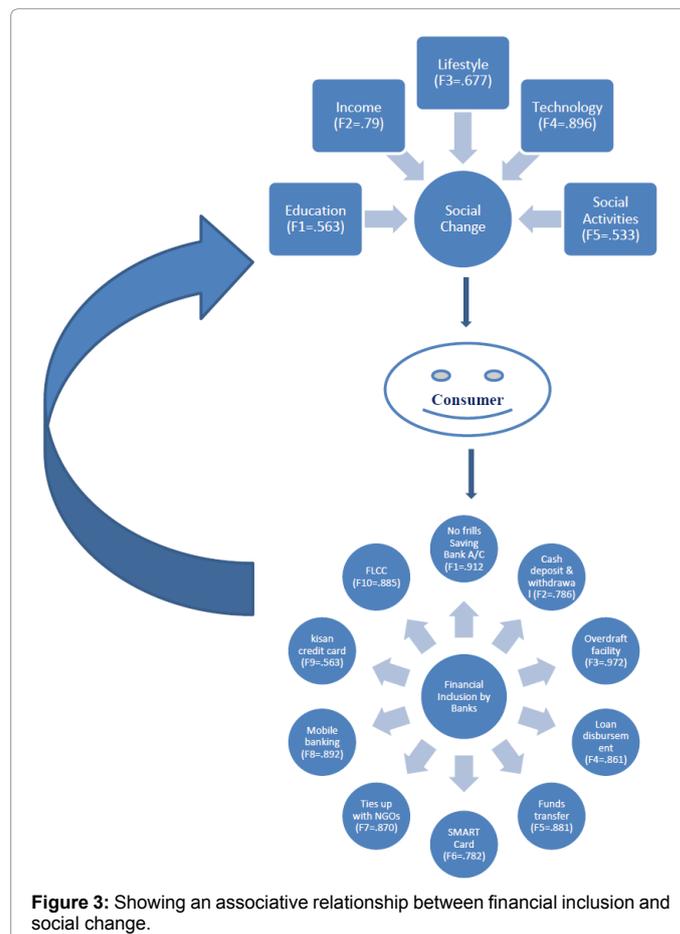
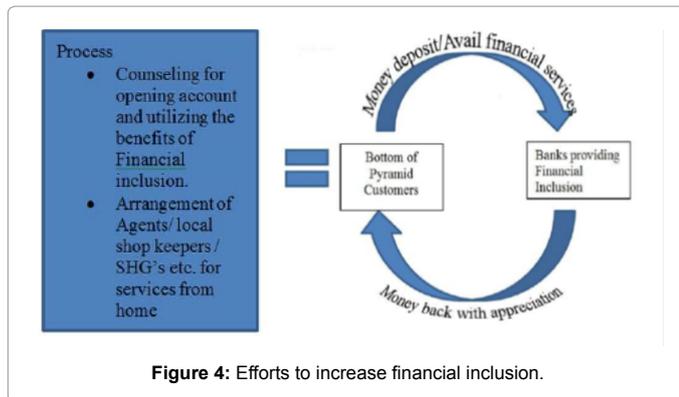


Figure 3: Showing an associative relationship between financial inclusion and social change.



savings accounts and overdraft facility of Financial Inclusion are most important factor for Bottom of Pyramid consumers, the researchers found that over draft facility was considered most important financial service. The second important factor was provision of no frill accounts. The value of KMO measure of sampling adequacy comes out to be .789 and the Bartlett's test of sphericity was found to be significant, depicting that factor analysis can be applied to the data. Other factors besides these two are shown in Figure 3.

5. In the Anova Table while performing regression, the goodness of fit value was 0.034 which was less than 0.05 showing that the model fits the data. The "Adjusted R Square (r^2)" shows that 50.9% of the variance was explained. The R -value was found to be 0.67 shown in Figure 3. Thus accepting the third Hypothesis (H3) that there is an associative relationship between financial inclusion and social change.

Conclusion and Suggestions

1. Make more liquidity available to Banks so that Banks can provide credit facility to customers at the time of their need and this can be done only when RBI cut the rates of Cash reserve Ratio and Repo rate.

2. No Frill accounts should be more operative and for this they should be made more attractive. Banks can offer special interest rates for such accounts, can offer credit cards without security, reduce documentation for loans and credit, reduce processing time and increase the efforts made by Financial Literacy and Counseling Centre.

3. The banks should give consumers a feel good factor and should deliver services at their home or according to their convenience. Collection centers should be increased.

4. Help Bottom of pyramid by providing Microcredit, enables Micro Insurance.

5. Mobile Device with Biometric Authentication can obviate the need for cards which are High on Cost and Maintenance.

6. To increase repayment of loans by customers, banks can offer them flexi schemes where they can repay the amount in installments daily or weekly as per their earnings for the day and in return should also give them rebates (Figure 4).

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