

## A Study of Financial Inclusion In India- Implementing Agencies and Stakeholders In Rajasthan

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### Abstract

Financial Inclusion or inclusive financing can be said as the delivery of financial services at affordable prices to the disadvantaged and low-income segments of our society, in contrast to financial exclusion where those services are not available or are not affordable. The term 'Financial Inclusion' has gained popularity since early 2000s, as a result of awareness about financial exclusion and its direct correlation with poverty. The term 'Financial Inclusion' can 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" (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). The essence of financial inclusion is in trying to ensure that a range of appropriate financial services are available to every individual in the society and enabling them to understand and have access to those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments like other accounts, a saving product suited to the arrangement of cash flows for a poor household, money transfer facilities, small loans and overdrafts facilities for productive, personal and other purposes, insurance (life and non-life), etc.

Now a days Financial Inclusion has really become one of the most discussed and debatable topic. This research paper aims to explain whether the Financial Inclusion initiatives taken up by the Government to help them securing 100% Financial Inclusion keeping in view the interests of all stakeholders. Earlier researchers identified that Financial Inclusion has had a positive impact on customer behavior, but even so little was known about these effects. The present research investigates the need and level of Financial Inclusion and Financial Literacy, as well as the variables that best represent Financial Inclusion. The research also looks into the matter of charging nominal price for products and the customer's response towards the same.

**Keywords:** Financial Inclusion, Financial Exclusion, Business correspondents, Lead Banks.

### Introduction

"Financial inclusion or inclusive financing is the delivery of financial services at affordable prices to the disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or

affordable". The term financial inclusion has gained popularity since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The term "Financial inclusion" can 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 (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan)."

The modern developments in banking technology have transmuted banking from the traditional brick infrastructure like staffed branches for a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, internet banking, online money transfers, etc. The main point however, is the access to such technology is restricted only to certain segments of the society. Indeed, some trends, such as increasingly sophisticated customer segmentation technology – allowing, for example, more accurate targeting of sections of the market – have led to restricted access to financial services for some groups. There is a growing demand with an increased range of personal finance options for a segment of high and upper middle income population and a significantly large section of the population who lack access to even the most basic banking services. This is termed as "financial exclusion". These people, particularly, those living on low incomes, cannot access mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services, insurance facilities, etc. Deliberations on the subject of Financial Inclusion contributed to a consensus that merely having a bank account may not be a good indicator of financial inclusion. Further, indebtedness as quantified in the NSSO 59th round (2003) may not also be a reflective indicator. The ideal definition should look at people who want to access financial services but are denied the same. If genuine claimants for credit and financial services are denied the same, then that is a case of exclusion. As this aspect would raise the issue of credit worthiness or bankability, it is also necessary to dwell upon what could be done to make the claimants of institutional credit bankable or creditworthy.

**Figure 1: Household Access to Financial Services**



Source: A Hundred Small Steps – Report of the Committee on Financial Sector Reforms (Chairman: Dr. Rangarajan).

### **Evolution of Financial Inclusion in India:**

The Reserve Bank of India i.e RBI first proposed the topic of financial inclusion by setting up a commission named as Khan Commission in 2004. The various recommendations and suggestions of the Commission were incorporated in the mid-term review policy of 2005 and 2006. The RBI asked banks to make available a basic “no-frills” banking account to the masses, with a view of achieving greater financial inclusion in the country. Financial inclusion was introduced by K.C. Chakraborty, the chairman of Indian Bank in 2005. Mangalam in Tamil Nadu was the first one to become the first village in India where all households were equipped with the basic banking facilities. The various norms were relaxed for people who intended to open account with annual deposit of less than or equal to INR 50,000.

### **Need of the Study:**

The study on this topic has the principle purpose of developing a comprehensive research framework that will be used to explore the role various agencies financial inclusion in Rajasthan. Financial inclusion is a very important concept for any economy. By practice of financial inclusion in an economy it would add to the growth and development of that economy.

Financial Inclusion has become an important concept for every developing economy of the world. Financial Inclusion is very important for a developing economy like India to achieve its goals and targets. But from various financial institutions point of view basically banks it is not possible without much technology neither is profitable to reach out each and every person especially in rural area. Then how do these agencies work towards it and are they able to achieve their targets.

### **Objectives:**

- To study and understand the present scenario of financial inclusion in India.
- To study and examine the major initiatives and policy measures taken up by RBI and GOI for financial inclusion in the country.
- To find out the impact financial inclusion on various individuals in Rajasthan.

### **Literature Review:**

**Leeladhar, V. (2006, January 1),”.... Taking banking services to common man-financial inclusion”, Reserve Bank Of India Bulletin, pp.73-77.** In this article author emphasize that, “.....banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology and expertise available with them as well as the MFIs and NGOs. It may appear in the first instance that taking banking to the sections”.

**Narasimhan, C. (2014, August 25), The challenge of financial inclusion, The Hindu, Retrieved November 2, 2014.** In this article the author emphasized on that The latest report of RBI says that it is much more important to provide with the financial services with the no frill account. For the overall economic growth it is very important to provide with other services such as overdraft facility, credit facilities with the basic account. If people in rural areas will have bank account it would be much easier even for the government to target such people for the various subsidiaries which are otherwise not provided to them. It is not possible for every bank to open up their branches in every area but with the help of technology it becomes very easy to reach to the target group and individuals and provide them all the facilities.

**Chakraborty, S. (2014, August 20), Financial inclusion may remain an unsolved puzzle for now, Retrieved November 1, 2014.** In this article the author emphasized that There are many steps been taken by various banks be it public or private but financial inclusion as said above remains a puzzle after a time because in starting phase it looks very attractive to everyone out there but starts fading after a point of time and these accounts which were open with such a zeal becomes dormant.

**Bhunia, A. (2014, October 11), Financial inclusion needs another model, Business Line, The Hindu, Retrieved November 3, 2014.** In this article the author tries to explain that there has been a growth in opening up of accounts and in recent times the number of accounts have raised drastically. The main aim of RBI and government still remains the priority sector lending and various steps have been taken and various things are being planned out in the same regard. Various targets are been given to various public sector banks and private sector banks regarding the same. The other side which is being targeted is the financial literacy among people so that even government subsidiaries could reach directly to them and on time.

**Agarwal, D. (2007, August 17). 100% Financial Inclusion: A challenging task ahead, Conference on Global Competition and Competitiveness of Indian Coporate, pp.277\_284.** In this the author emphasized upon that the Government should introduce ".....basic banking services as a topic in secondary and higher secondary education. Government should sponsor publicity campaigns through all Medias - radio; television; newspapers; e-choupal; village panchayat; movies; local stage shows etc. for the same. Banks should design and organize aggressive education cum promotion campaigns in un- banked parts of semi - urban and rural areas to enhance financial literacy as well as to remove the doubts and apprehensions that the masses have towards the banking sector. Banks should involve the knowledgeable and well-informed local inhabitants in such activities. This will help the banks to consolidate and ensure, prompt and extensive response from populace. Banks should gather support from the NGOs, retired bank personals, and academic institutions, to reach the desired numbers within a limited span of time."

### **Research Methodology:**

Research involves “creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society and the use of this stock of knowledge to devise new applications.” It is used to establish or confirm facts and the results of previous work, solve new or existing problems and support the various theorems or develop some new theories.

In other words the Research Methodology can be defined as the “ way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them”.

### **Research Design:**

The present research is descriptive in the nature. The data used for the research is both primary and secondary in nature and the secondary has been collected from RBI bulletin, annual reports of RBI and Ministry of Finance, GOI, Report on trend and progress of banking in India and the various reputed journals, newspapers and websites of RBI, NABARD (National Bank for Agricultural and Rural Development) and Ministry of Finance, Government of India (GOI) and the primary data has been collected through questionnaire.

Descriptive research design is also called explanatory research design. It is one of the simplest research design that is concerned with determining frequency with which something occurs or how the various variables vary together. The description is used for frequencies, averages and other statistical calculations like percentage.

### **Sampling Method:**

Sampling unit: Respondents from different field.

Sampling size: 100 respondents from different field with low level of income

Sampling technique: Non-probability convenience sampling.

Sampling is the use of subset of the population to represent the whole population. There are two methods of sampling, one of them is probability sampling and the second is non-probability sampling. In probability sampling the each member of universe has a known chance of being selected as the sample. Simple random, systematic samples, stratified samples and cluster samples are the methods of probability sampling. On the other hand, in non-probability sampling the chances of any particular unit in the population of being selected is unknown. There are three commonly used techniques of non-probability sampling are: judgment, convenience and quota sampling. Performing non-probability sampling can be considerably less expensive than doing probability sampling.

In convenience sampling, the sample units are chosen on the convenience basis of investigator. To sample friends, co-workers or shoppers at a single mall, are

all examples of convenience sampling. Such samples are biased because researchers may unconsciously approach some kinds of respondents who volunteer for a study may differ in known but important ways from others.

**Data Collection Method:**

There are two types of data that is available for researcher: primary data and secondary data. Primary data is generated when a researcher collects information by using email questionnaires, telephonic surveys and personal interviews, observations and experiments. Secondary data, on the other hand, include those data which have been collected for some earlier research or by newspapers review and magazines etc.

Data of the study was collected from both primary and secondary sources. Secondary data was collected through magazines, articles and journals. Primary data was collected through questionnaires.

**Limitations:**

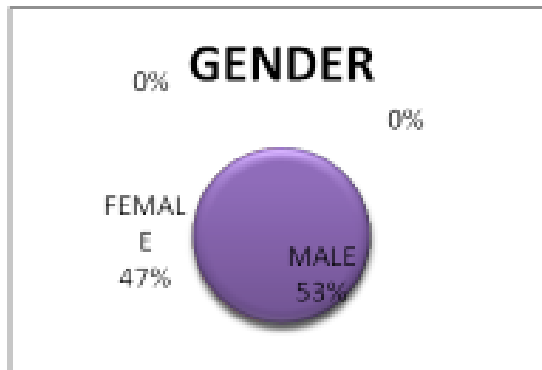
In attempt to make this paper authentic and reliable, every possible aspect of the topic was kept in mind while working on it. Nonetheless, despite of fact constraints were at play during the formulation of this project. The main limitations are as follows:

- Sample size: the sample size taken for the present research is 100 customers which is quite small because the scope and impact of FINANCIAL INCLUSION is large, it would have been wise to involve the beneficiaries of the scheme as well for the study but due to time and financial constraints it was subject to confinement.
- Method used for sampling: Convenience sampling is though quite useful but it suffers from many limitations and one of them is limit of equal chance of every individual being selected in the sample for the study. Since the sampling frame is not known to us, and the sample is not chosen at random, the inherent bias in convenience sampling arises that the sample is unlikely to be representative of the population being studied. This weakens our ability to make generalizations from the sample to the population we are conducting research on.
- Composition of sample taken for study: The sample is composed of good number of individuals who are conscious of the cost of financial services. In addition to it almost none of the minor individual has found a place in sample which also would have been quite useful in understanding the behavior of children towards the scheme, because they are also the direct customers of the some policies.
- FINANCIAL INCLUSION being a social initiative, it is supported by each and every government on paper. The bias arises from the human nature which is people tending to support causes on financial literacy.

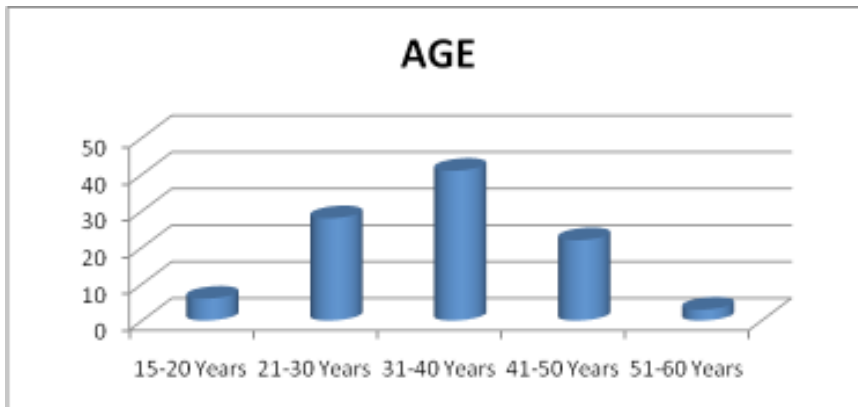
**Findings:**

Findings are based on the questionnaires that were circulated to the people below poverty line.

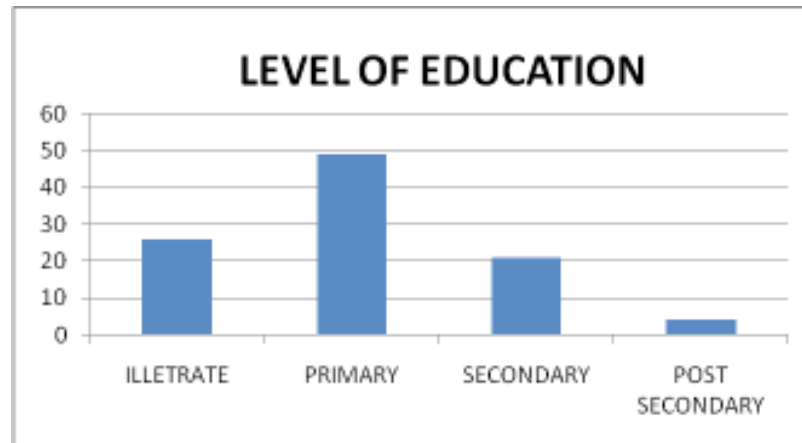
**Customers (demographic factors):**



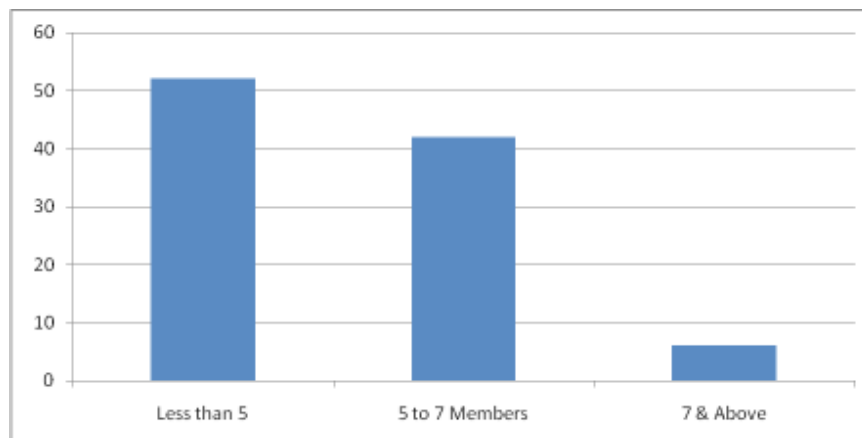
**Figure1:** This figure depicts that out of 100 respondents there are 47 females and 53 males.



**Figure 2:** Figure 2 depicts the age composition of various respondents which is 6 of 15-20 years, 28 of 21-30 years, 41 of 31-40 years, 22 of 41 to 50 years and 3 of 51-60 years.

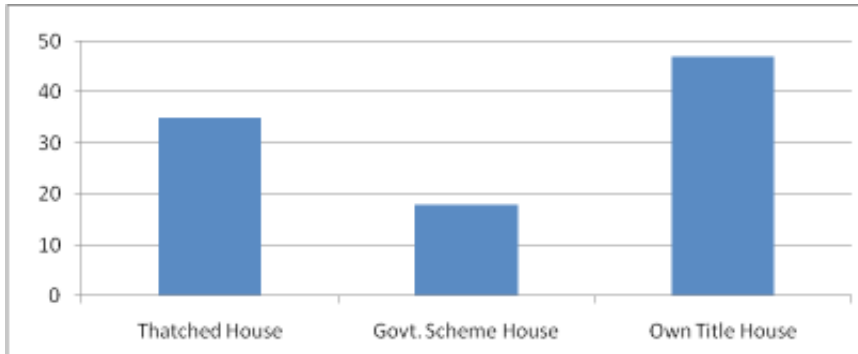


**Figure 3:** The figure 3 depicts that out of total sample 26% of respondents are illiterate, 49% of respondents had primary education, 21% of the respondents were educated upto secondary level and 4% upto post-secondary level.



**Figure 4:** Number of members in a family also affects the expenditure and the savings of family. FIGURE 4 depicts that out of our 100 respondents 52 of them have got less than 5 members in their family, 42 got 5 to 6 members in a family and 6 of them got more than 7 members in their family.





**Figure 5: The type of house also affects the expenditure and savings of a family in the same way as various other things does. The above FIGURE 5 depicts that in our sample of 100 respondents 35 of them reside in Thatched house, 18 of them reside in Govt. scheme house and 47 of them in Own title house.**



**Figure 6 : Earning of a family is the one thing and the main thing that affects the overall savings and expenditure of a family as well as of an individual. FIGURE 5 depicts that among our 100 respondents 19 of them have got just 1 earning member in their family, 40 of them have got 2 earning member in their family, 29 have got 3 earning members in their family and 12 have got 4 earning member in their family.**

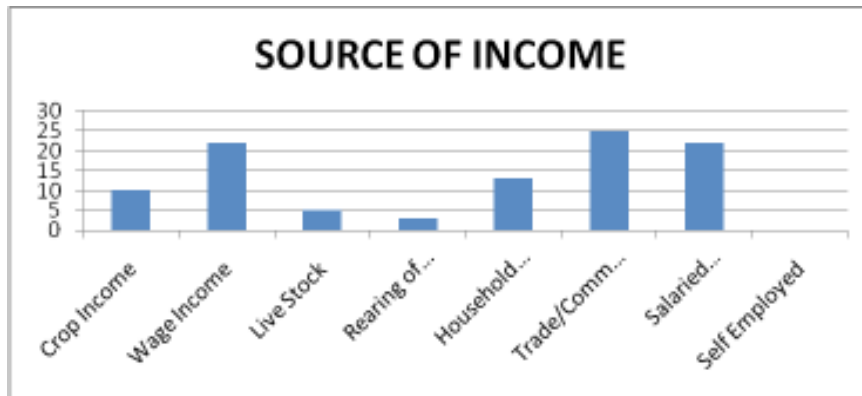


Figure 7: The above FIGURE 7 depicts the various sources of income of our respondents out of total 100 respondents 10 earn their livelihood through crop income, 22 earn through wage income, 5 through livestock, 3 through rearing of cattle, 13 through household industry, 25 through trade/commerce, 22 through salaried income.

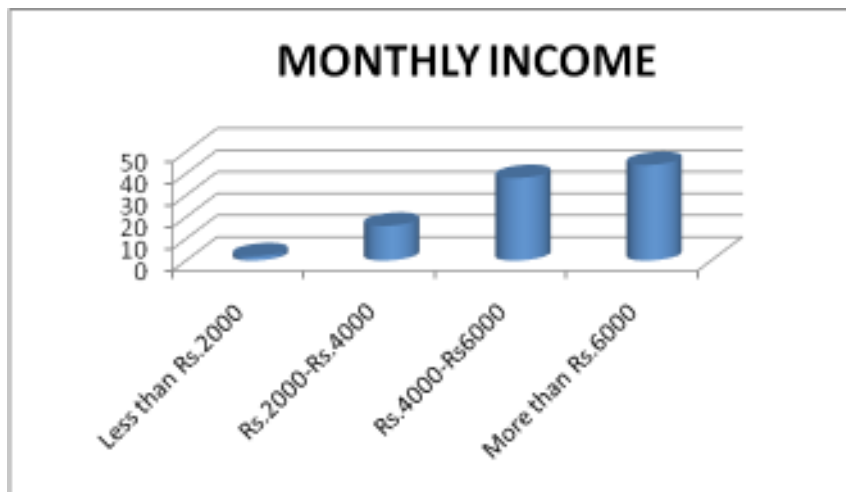


Figure 8: Monthly income of income is the main factor which determine saving, expenditure habits of an individual. With rise in income expenditure also rises.

The above FIGURE 8 depicts the Monthly Income of various respondents. Out of 100 respondents only 2 of them had their monthly income as less than as Rs.2000, 16 of them had their monthly income varying between Rs.2000 to Rs.4000, 38 of them their monthly income between Rs.4000 to Rs.6000 and many as 44 had their monthly income more than Rs.6000.

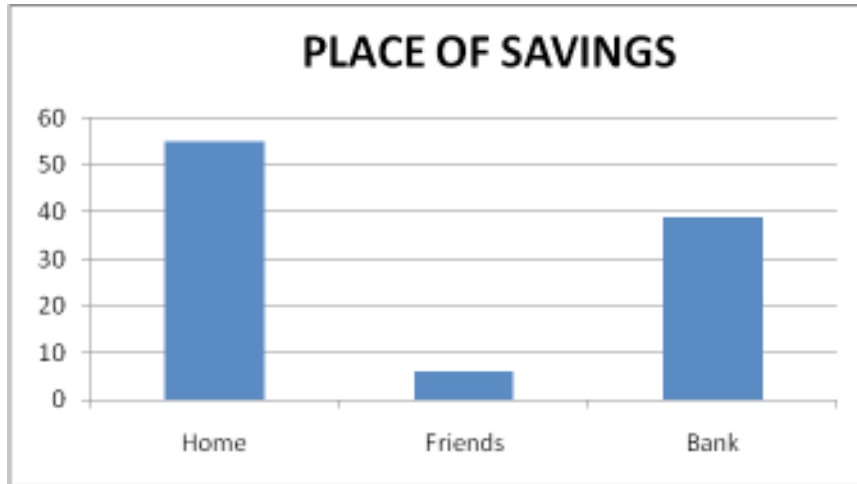


Figure 9: Place of savings also differ from person to person some keep their savings in their home itself on the other hand some like to keep savings in bank. Out of our 100 respondents we found that 55 of them keep savings at their home, 6 of them like their savings with their friends and 39 of them like to save in bank.

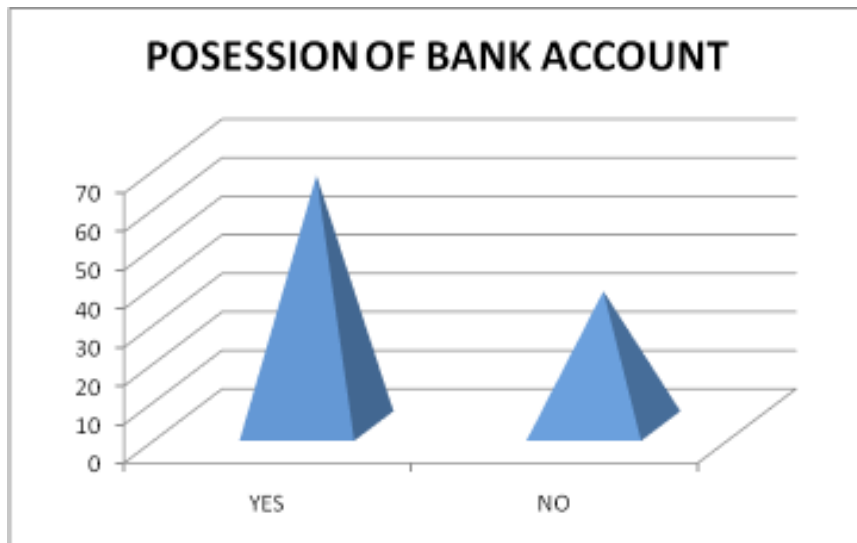


Figure 10: As we all know that a bank account is a necessity these days but still many of us do not avail this facility available to us. In my sample I found out that out of 100 only 65 has got bank account and 35 of them do not have a bank account.

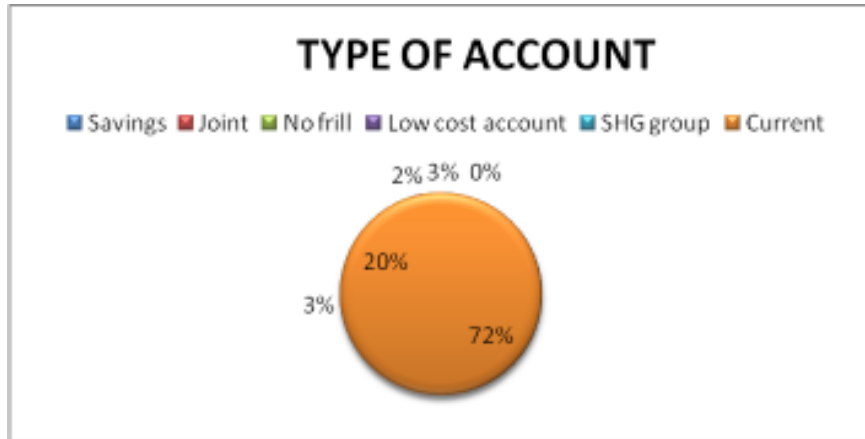


Figure 11: There are many type of accounts which are available these days like savings, current, low frill. Out of 65 respondents who got bank account out of 100 in which 47 has got access to savings account, 1 of them access joint account, 14 has got access to no frill, 1 has got access to low cost account, 2 got access to SHG group and none of them has got current account.

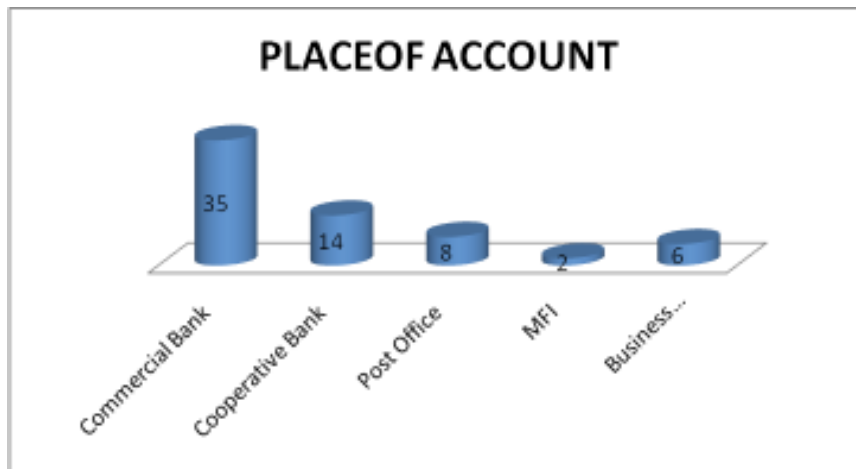
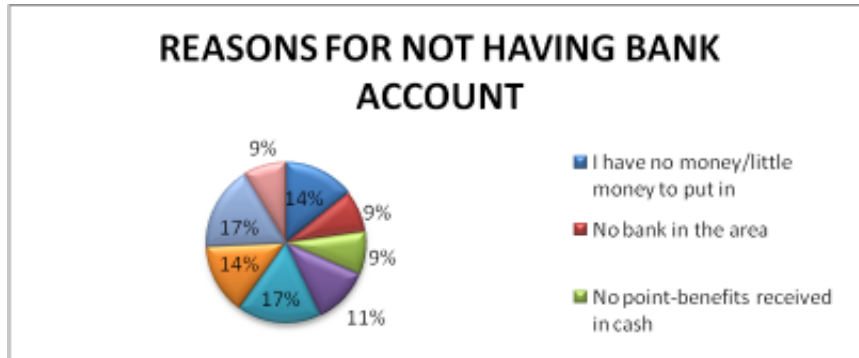
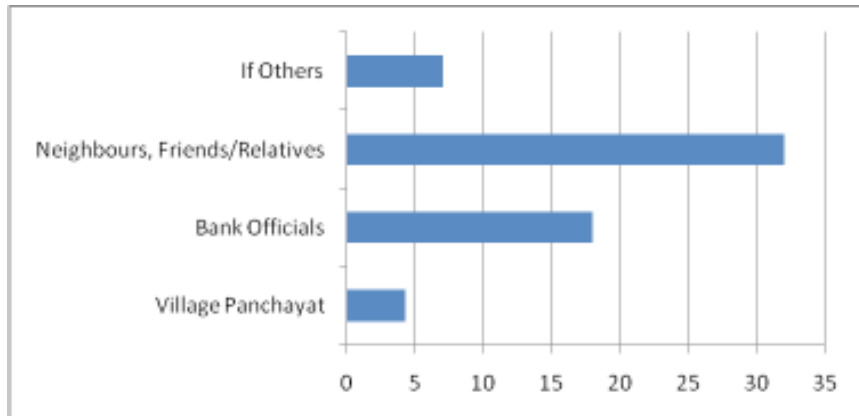


Figure 12: There are many type of banks operating in market these days and other than bank other places like post office where individuals can open their accounts and operate them. Out of 65 respondents who got bank account 35 of them got it in a commercial bank, 14 of them got in cooperative bank, 8 of them got in post office, 6 operate through SGH/MFI and last 6 through business correspondent.



**Figure 13:** There can be as many as reasons for not having a bank account out of 100 respondents 35 of them do not have access to bank account and reason for the same are as follows:

5 of them said they have no money to put in, 3 said they don't have bank in their area, 3 said no point benefit received by them in cash, 6 said that there might be too many charges, 5 said they tried to open but was refused, 6 said that they find it a lengthy process.



**Figure 14:** There are many people and other help available to open a bank account and the 65 respondents out of 100 who got bank account said that the following people helped them to open their respective bank account are as follows

8 of them said that the village panchayat helped them to open their bank accounts. Further 18 said that bank officials helped to open their bank account, 32 said that their neighbors, friends/relatives helped them to open their account and rest 7 said other people like their employer, people present in the bank helped them to open their account.

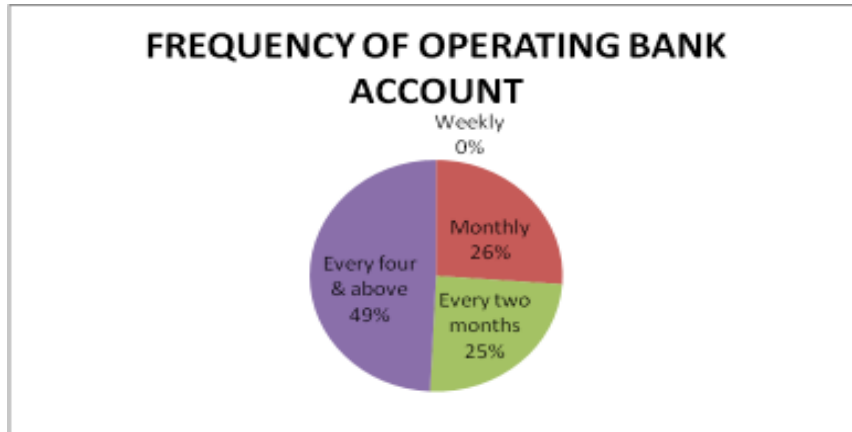


Figure 15: The frequency of using a bank account differs from person according to their own requirements. Out of our 65 respondents who got their own bank account none of them operate it weekly, 17 of them operate it monthly, 16 of them operate it every two months and 32 of them every four months and above.

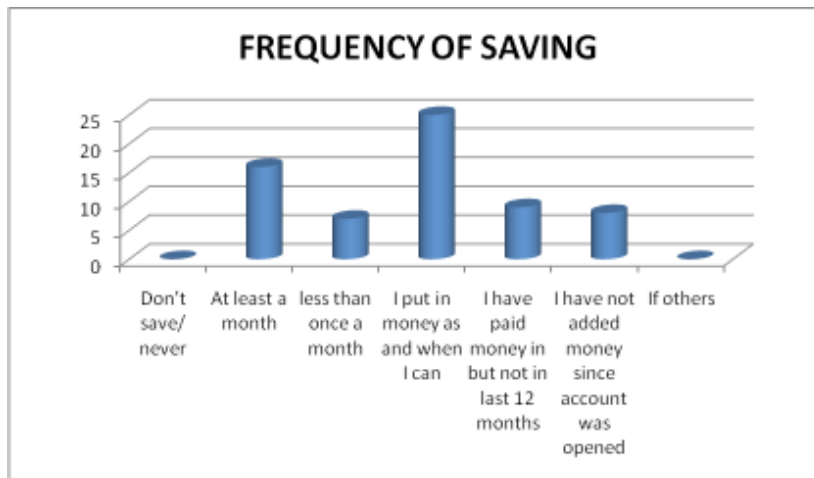


Figure 16: The frequency of saving also differs from person to person for some it is mandatory to save once in a month while for others saving is a rare activity. Out of our 65 respondents who got access to bank account they say that none of them save once in a month while 16 say they save once in a month in their account, 7 of them say that they save in account in less than month, 25 of them say that they put in money in their respective account as and when they can, 9 of them say that they have paid in money but not in last 12 months and 8 of them say that they have not added money since account was opened.

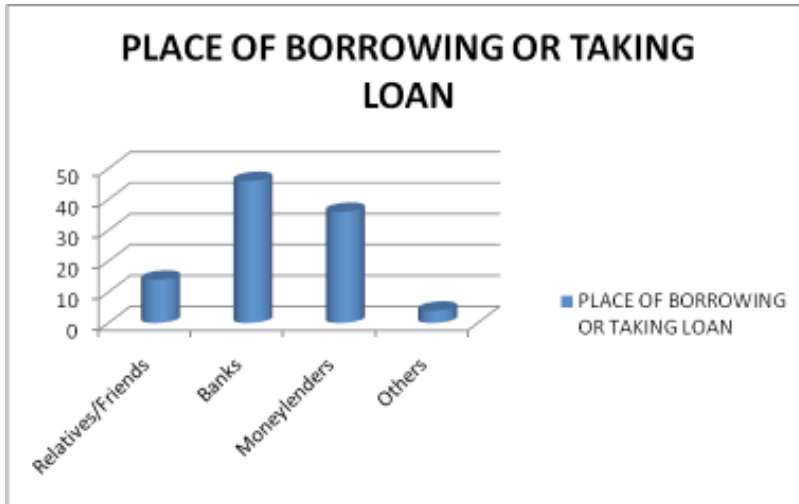


Figure 17: In today world everybody needs credit but the place of borrowing or taking loan differs from person to person. The above FIGURE depicts that out of 100 respondents 14 responded that they took loan from relatives or friends, 46 said that they took loan from bank, 36 said that they borrowed money from moneylenders while the 4 responded that they borrowed from other sources like employer etc.

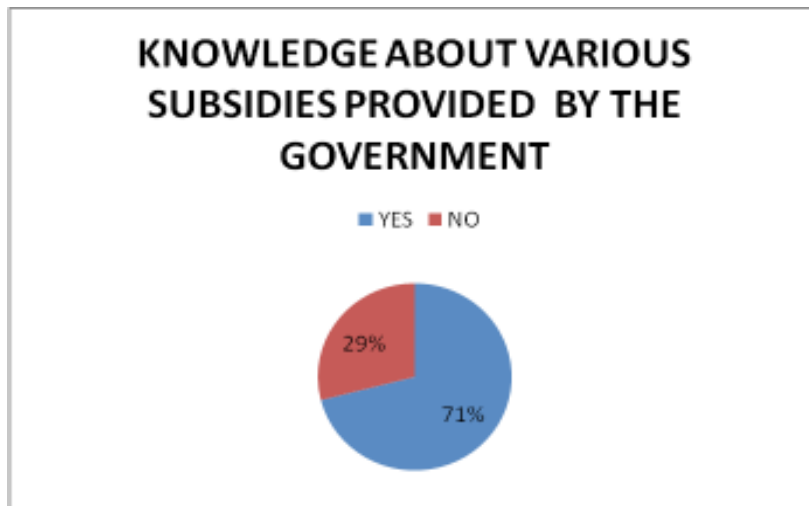


Figure 18: The above FIGURE depicts about the knowledge of 100 respondents about various subsidies provided by the government. 71 of them responded that they do have knowledge about various subsidies provided by the government and the other 29 responded that they do not have knowledge about these subsidies.

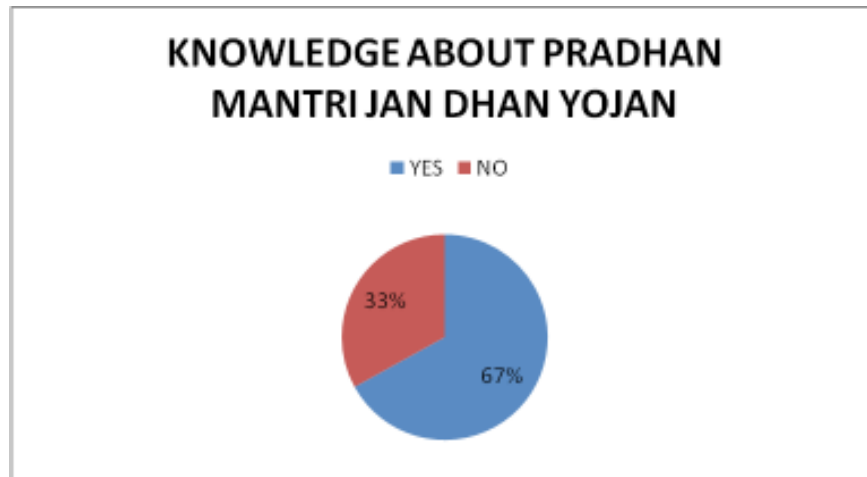


Figure 19: The above FIGURE depicts the knowledge about PRADHAN MANTRI JAN DHAN YOJNA. Out of all the 100 respondents 67 of them responded that they do have knowledge about PRADHAN MANTRI JAN DHAN YOJAN while other 33 responded that they do not have knowledge about such yojna.

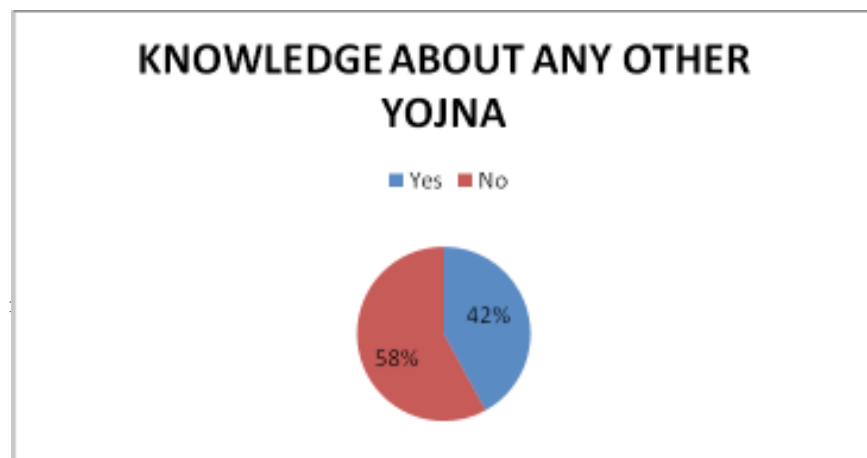


Figure 20: This FIGURE depicts about the knowledge about any other yojna. Out of total 100 respondents 42% agreed that they do possess knowledge about other yojna as well and other 58% said that they do not have knowledge about any other yojna.



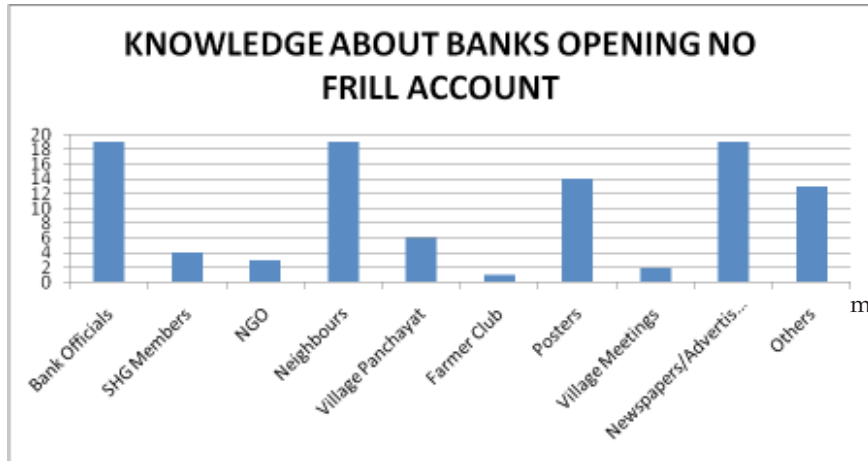


Figure 21: There are various places from one can gather knowledge about banks opening no frill account. The above FIGURE depicts that out of total 100 respondents 19 gathered this information from bank officials, 4 from SHG members, 3 from NGOs, 19 from neighbors, 6 from village panchayat, 1 from framers club, 14 from posters, 2 from village meetings, 19 newspapers/advertisements and 13 from other places like employer etc.

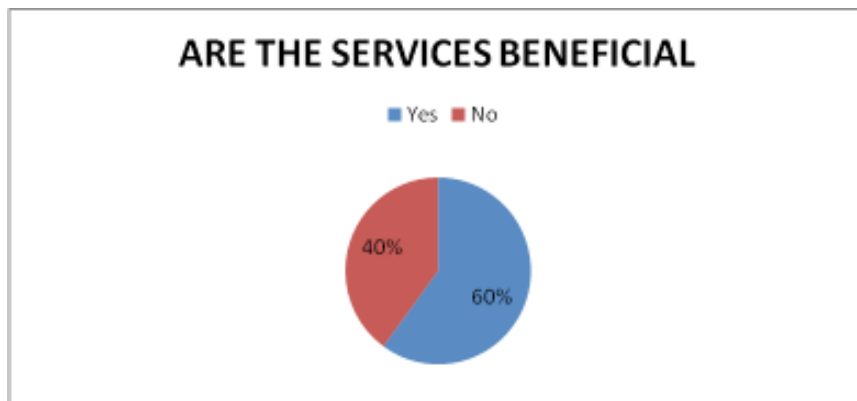


Figure 22: Some individual find these services beneficial while others don't. Out of our 100 respondents 60% of the respondents found these services beneficial while the rest 40% dint find these services beneficial.

**Conclusions and Suggestions:**

The research presents an elaborate and explained study of Financial Inclusion and its implementation. It should be noted that the results are favoring the literature that Financial Inclusion is reaching out to people at a greater speed . Additionally some important factors that play more important role in the preference are:

1. The awareness is the very base for building preference as concluded by most of researchers and its implication in the determination of behavior has been proved to be true. The awareness is not only the factor that leads to individual's behavior rather a closely related factor has been also found to be quite useful in this regard, the attention at the time of saving and borrowing. The awareness though is very important but attention at the time of saving proves to be more influential as a individually is quite emotionally touched in case he has never come to know about the same.
2. Opening no frill account has not been approved quite viable as per the present research, the analysis have been found negative for it which proves that individual's don't want to open a bank account rather they think it to be a additional burden on them and prefer the one doing it because only a few banks have low cost account or no frill account.

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