Financial Inclusion in Rural Areas of District Hisar

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Abstract

Financial inclusion is an idea whose time has finally come in India. It will enable hundreds of millions of low-income people to improve their economic and social status by participating in the financial system. This study examines the financial inclusion in rural areas of district Hisar and tries to find out the reason of financial exclusion where it was found.

1. INTRODUCTION

1.1 Financial inclusion

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. As banking services are in the nature of public good, availability of banking and payment services to the entire population without discrimination must be the prime objective of the public policy. A working definition of Financial Inclusion has been given by a Committee on Financial Inclusion:

"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."

Access to a well-functioning financial system, by creating equal opportunities, enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects them against economic shocks. **C.K. Prahalad**, economic and management guru has rightly said, "There is growth and gold at the bottom of the pyramid".

1.2 Financial exclusion

While we are discussing financial inclusion we should also try to understand what financial exclusion is and what its effects are. According to Shri Rakesh Mohan, Deputy Governor, RBI, ***Financial Exclusion signifies the lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream***

providers. It is the result of our inability to provide comprehensive financial services to the poor and downtrodden in a cost effective way.

Research carried out and discussions held among experts within the present research project leads us to propose the following definition:

"Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong".

1.3 Why there is Financial Exclusion?

Financial exclusion could be looked at in two ways:

i. Lack of access to financial services which could be due to several reasons such as:
   - ✓ Lack of sources of financial services in our rural areas, which are popular for the ubiquitous money lenders but do not have (safe) saving deposit and insurance services.
   - ✓ High information barriers and low awareness especially for women and in rural areas.
   - ✓ Inadequate access to formal financial institutions that exist to the extent that the banks couldn't extend their outreach to the poor due to various reasons like high cost of operations, less volume and more number of clients, etc. among many others.
   - ✓ Primary Agricultural Cooperative Societies (PACS), which number around one lac are also often exclusionary, as their membership is restricted to persons with land ownership. Even to their members, not many PACS offer saving services.

ii. Lack of access to formal financial services in both rural and urban areas, but is a larger issue in cities and small towns. The distinction between access to formal and informal services is crucial to understand, as informal financial markets suffer from several imperfections, which the poor pay for in many ways. Some informal financial services due to which there is exclusion, are having the following attributes due to which financial inclusion is a must:
   - ✓ **High risks to saving:** loss of savings is an easily discernible phenomenon in low income neighborhoods in urban areas.
   - ✓ **High cost of credit and exploitative terms:** credit against collateral such as gold is even more expensive than the effective interest rates, similarly, rates paid by hawkers and vendors who repay on daily basis are very high.
   - ✓ **High cost and leakages in money transfers:** the delays in sending money home through all informal channels add to these.

- ✓ **Near absence of insurance and pension services:** life, asset, and health insurance needs.

1.4 Distinction between '*access*' to financial services and their '*usage*'

It is often observed that people may have access to financial services but may not wish to use them. Such voluntary excluded persons, it is argued, should be included in measures of access even if they do not use financial services. Access covers a range of institutions from the more formal to less formal. At the one end of the spectrum are banks or near banks which are often defined as formal financial institutions which can provide multiple financial services to their clients, including deposits, payments and credit services. Other formal financial service providers are all other legal entities licensed to provide financial services.

The access to finance could be divided into five segments:

i. The proportion of the population that uses a bank or bank like institution;

ii. The population which uses service from non-bank 'other formal' financial institutions, but does not uses bank services;

iii. The population which only uses services from informal financial service providers;

iv. Percentage of population transacting regularly through formal financial instruments; and

v. The population which uses no financial services.

There is a need to draw distinction between access and usage in the following ways:

i. We need to consider how to categorize people who do have transaction banking facilities with an account but choose not to use them.

ii. There is the issue of people who could gain access to specific services but choose not to do so.

iii. An important distinction is often made between those who choose freely not to use a particular service (such as people who have a fundamental objection to using credit) and those who are deterred from doing so because they believe the features of the products or services make them inappropriate to their needs or the costs puts them beyond their reach.

1.5 Committee on Financial Inclusion

The Government had, in June 2006, constituted a committee on financial inclusion, under the chairmanship of Dr. C. Rangrajan, Chairman of the Economic Advisory Council to the Prime

Minister. This committee was asked to suggest measures including institutional changes to be undertaken by the financial sector to implement the proposed strategy of financial sector. This committee has submitted an interim report. Government has decided to implement, immediately, two recommendations:

- ✓ The **First** is to establish a Financial Inclusion Fund with NABARD for meeting the cost of developmental and promotional interventions.
- ✓ **Second** is to establish a Financial Inclusion Technology Fund to meet the costs of technology adoption.

Each of these funds will have an overall corpus of Rs.500 crore, with initial funding to be contributed by Central government, NABARD & RBI.

Besides this, in order to improve provision of financial services in the North-Eastern region and prepare an appropriate State-specific monitor-able action plan RBI has set up a Committee on Financial Sector Plan for the North-Eastern Region headed by Deputy Governor of RBI, with members from financial institutions and banks, State Governments from the North-Eastern States and academics.

The major recommendations of the Committee include:

- ✓ Launching of a National Rural Financial Inclusion Plan (NRFIP) in mission mode with a clear target to provide access to comprehensive financial services, including credit, to at least 50% (say 55.77 million) of the financially excluded rural cultivator/non-cultivator households, by 2012 through rural/semi-urban branches of Commercial Banks and Regional Rural Banks. The remaining households have to be covered by 2015.For the purpose, a National Mission on Financial Inclusion (NaMFI) is proposed to be constituted comprising representatives from all stakeholders to aim at achieving universal financial inclusion within a specific time frame.
- ✓ Constitution of two funds with NABARD – the Financial Inclusion Promotion & Development Fund(FIPF) and the Financial Inclusion Technology Fund(FITF) with an initial corpus of Rs. 500 crore each to be contributed by GoI / RBI / NABARD. The FIPF will focus on interventions like, "Farmers' Service Centres", "Promoting Rural Entrepreneurship", "Self-Help Groups and their Federations", "Developing Human Resources of Banks", "Promotion of Resource Centres" and "Capacity Building of Business Facilitators and Correspondents", while the FITF will focus on funding of low-cost technology solutions. *(This recommendation has already been accepted by GoI.)*
- ✓ Deepening the outreach of microfinance programme through finacing of SHG/JLGs and setting up of a risk mitigation mechanism for lending to small marginal farmers/share croppers/tenant farmers through JLGs.
- ✓ Use of PACSs as Business Facilitators and Correspondents.

- ✓ Micro finance – Non Banking Finance Companies (MF-NBFCs) could be permitted to provide thrift, credit, micro-insurance, remittances and other financial services up to a specified amount to the poor in rural, semi-urban and urban areas. Such MF-NBFCs may also be recognized as Business Correspondents of banks for providing only savings and remittance services and also act as micro insurance agents.
- ✓ Opening of specialised microfinance branches / cells in potential urban centers for exclusively catering to microfinance and SHG - bank linkages requirements of the urban poor. An enabling provision be made in the NABARD Act, 1981 permitting NABARD to provide micro finance services to the urban poor.

1.6 Current Scenario in India

In India, there are close to 370 cooperative banks, 96 Regional Rural Banks (RRBs) with 14,000 branches, and in addition to that we have 25,000 farmers' clubs. In spite of this network, more than 50 percent of the population doesn't have access to formal financial services. The government has decided that two funds should be created within NABARD, namely the Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF). We are currently exploring the possibilities and trying to reach the technology providers, the bankers, while at the same time trying to launch some pilot projects, all in an endeavor to see how we can reach the rural masses. It also includes facilities to those who lack assets for collateral and empowerment of SHGs to promote financial inclusion.

In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the 'super-included', i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers.

2. REVIEW OF LITERATURE

Financial inclusion as a field of study has attracted the attention of researchers across the world. A lot of studies have been conducted on financial inclusion till today. Pick a RBI bulletin and you will find atleast one article on the subject. Some of the studies conducted on the subject have been reviewed and these are as follows:

Farnish (2000) found that a relatively high percentage of low-income and minority households do not use mainstream financial services, factors responsible for which are that these households have no, or almost no, month-to-month financial savings and cannot pass standard credit-risk screening procedures. **Mahajan (2004)** provides an insight into the role of financial inclusion as an essential pre-condition to uniform economic development. The study emphasized on the role of micro credit as a tool for increasing financial inclusion. **Ghosal (2005)** explains the role that banks can play to deliver microfinance to self help groups. **Leeladhar (2005),** the Deputy Governor, RBI argued that banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both as a business opportunity as well as a corporate social responsibility. **Mohan (2006),** the Deputy Governor, RBI explained the topic of financial exclusion. He elaborates the benefits of financial inclusion and gives some evidence from the experience of other countries, with regard to financial inclusion. **Adhikari (2006)** in his article describes the efforts of ICICI Bank to reach the rural poor. According to **Leeladhar (2006)** financial inclusion can emerge as commercial profitable business. Only the banks should be prepared to think outside the box. For example, ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English. **Gardner (2007)** outlined some factors which appear to contribute to the success of the good practice initiatives like engage of community, building trust amongst the beneficiaries of the service, awareness, developments in technology and personalised services. **Ramkumar (2007)** argued that financial inclusion is not a one time effort; it is an ongoing process. It is a huge project which requires concerted and team efforts from all the stake holders- the Government, financial institutions, the regulators, the private sector and the community at large. **Thorat (2007)** explained the various reasons for financial exclusion in India, like geographical barriers, poor infrastructure, physical access that itself acts as a deterrent, lack of awareness, low incomes/assets, social exclusion, illiteracy, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes etc. **Financial Inclusion in India (2007)** study provides an explanation that the expansion of financial services to all sections of society is important, in order to leverage development and growth benefits. **Sarma and Pais (2008)** examined the relationship between financial inclusion and development by using an index of financial inclusion to investigate macro level factors using the three basic dimensions of financial inclusion – accessibility, availability and usage of banking services. The study concluded that higher the income level, higher is the financial inclusion. Physical infrastructure like road network, telephone and internet usage is also positively associated with the level of financial inclusion which indicates that connectivity and information play an important role in financial inclusion. The report of **Rangarajan Committee on Financial Inclusion (2008)** felt the need for a normative definition of Financial Inclusion and gave working definition of Financial Inclusion. **Chidambaram (2008)** in his budget speech said that Government has decided to implement two recommendations given by Committee on Financial Inclusion. One is to establish a Financial Inclusion Fund with NABARD for meeting the cost of developmental and promotional interventions. The second is to establish a Financial

Inclusion Technology Fund to meet the costs of technology adoption. As per the study on **Financial Inclusion Index (2008),** ranks India at 29 in a list of 55 countries based on the country's performance in banking penetration, availability of the banking services and the usage of the banking system highlighting inefficiencies in making the services available to the financially excluded population. According to **Bays et.al, (2008)** most developed financial inclusion markets reach no more than 30 per cent of the addressable population. **Mishra and Kumar (2009)** attempts to measure and understand financial inclusion by looking at supply of and demand for financial services and found two important perspectives, one is to widen the ambit of policy initiatives under financial inclusion, and second, is to provide greater focus on vulnerable states/regions in providing access to financial services on which they are lagging. **Ramji (2009)** found that bank accounts have been opened typically to receive government assistance, mostly under the National Rural Employment Guarantee Programme (NREGP). Moreover, accounts have gone to households that already had access to savings and accounts.

3. NEED OF THE STUDY

To ascertain the ground level status of the first phase of financial inclusion in the rural areas of district Hisar after the SLBC Report has claimed that 100% Financial Inclusion has been achieved in rural areas of Punjab and Haryana this study is undertaken. So there was a need to study the extent of Financial Inclusion achieved in the rural areas of Hisar separately.

The present study attempts to analyze the extent of Financial Inclusion in the rural areas of district Hisar and then suggest some measures to speed up the process of Financial Inclusion. The study will highlight the problems faced by the respondents in the selected sample with the present banking system and suggestion given by them to tackle the problems.

4. OBJECTIVE OF THE STUDY

The study aims at examining the concept of Financial Inclusion, its scope, other aspects and international experience in promoting Financial Inclusion. In order to understand the same, extent of Financial Inclusion has been analyzed in the rural areas of district Hisar. The broad objective is sub-divided into the following:

i. To study the concept of Financial Inclusion.

ii. To analyze the extent of Financial Inclusion in rural areas of district Hisar.

5. RESEARCH METHODOLOGY

Following methodology has been used to fulfill the objectives of the present study:

5.1 Scope of the study

In this project, an attempt has been made to study the conceptual framework of financial inclusion. This has been done on household level. If any single member in the family is having a bank account in any bank then the whole household will be treated as financially included. On this basis, the extent of financial inclusion in rural areas of district Hisar has been studied.

5.2 Sample of the study

The sample consisted of rural areas of district Hisar. The sample size consists of 367 respondents. The methodology of selecting a respondent as a sample is convenient and random sampling. The sample consisted of age groups from 15 years to 56 years and above.

5.3 Data for the study

The study is based on both primary as well as secondary data. The primary data has been collected through a standardized questionnaire used by UBS for RBI. The secondary data has been collected from published and non-published sources.

6. FINDINGS OF THE STUDY

Findings of the present study have been divided into the following sections:

6.1 Extent of Financial Inclusion

6.2 Motivators for Opening of Bank Account

6.3 Impact of Banking Services

6.4 Respondents' profile and financial inclusion

6.5 Qualitative aspects of Banking services

6.6 Problems faced by the villagers

6.7 Suggestions given by the respondents

6.1 Extent of Financial Inclusion

Financial inclusion in rural areas of district Hisar under study has been presented in Table-1. It can be observed that 65.67% households of rural areas of district Hisar have been financially included.

TABLE- 1

Total no. of	financially	%age	financially	%age

Respondents	included		excluded	
367	241	65.668	126	34.332

6.2 Motivators for Opening of Bank Account

Table-2 shows that Self Motivation (34.85%) has played a dominant role in motivating the respondents in opening of bank accounts followed by Friends (26.14%), Family Members (14.52%) and others (14.11%) whereas Banks (3.73%) have played not much role in motivating people to open bank accounts.

TABLE- 2

Motivators for Opening of Bank Account (Figures in percent)						
Bank Employee	**Family Member**	**Friend**	**No One**	**NGO**	**Members of Panchayat**	**Other**
3.73	14.52	26.14	34.85	1.24	5.39	14.11

6.3 Impact of Banking Services

In this section the impact of banking services on income, opportunities for livelihood, savings, consumption and financial prudence has been examined.

The effect of banking services on the income of the respondents has been depicted in Table-3. This table shows that only 30.29% of the respondents in the selected area have reported increase in income due to banking whereas 63.07% respondents said that their income has not been affected by banking services. Table shows that 87.97% respondents' earning opportunities remain unaffected from banking services whereas only 9.54% people said that their income has increased as they availing banking services. Further, 25.31%, 21.99% and 34.85% of the respondents have reported increase in savings, consumption and financial prudence respectively due to banking.

TABLE- 3

	Increased	**%**	**Decreased**	**%**	**No effect**	**%**
Effect on Income	73	30.29	16	6.64	152	63.07
Effect on earning opportunities	23	9.54	6	2.49	212	87.97
Effect on Savings	61	25.31	17	7.05	163	67.63

Effect on Consumption	53	21.99	42	17.43	146	60.58
Effect on Financial prudence	84	34.85	0	0.00	157	65.15

6.4 Respondents' profile and financial inclusion

The respondents of the study have been classified on the basis of social categories, economic categories and main occupation and have been presented in Table-4. It can be observed that 65.67% of the sample respondents in the rural areas of district Hisar have been financially included. On basis of social classification, the highest and lowest percentages of financial inclusion could be observed in respect of OBC and SC respondents. On the basis of economic categories, it can be observed that financial inclusion of respondents classified as Marginal farmers is higher than that of respondents categorized as BPL. On the basis of occupational classification, it can be observed that highest percentage of financial inclusion has been recorded in respect of respondents engaged in business and lowest for agriculture.

TABLE- 4

Categories	**INCLUDED**		**EXCLUDED**		**TOTAL**
	Households	**%**	**Households**	**%**	
Social Category					
General	124	67.03	61	32.97	185
Scheduled Class	64	59.81	43	40.19	107
Scheduled Tribe	0	0.00	0	0.00	0
Other Backward Class	53	70.67	22	29.33	75
Total	**241**	**65.67**	**126**	**34.33**	**367**
Economic Category					
Below Poverty Line	42	57.53	31	42.47	73
Landless Workers	31	53.45	27	46.55	58
Small/ Marginal Farmers	53	88.33	7	11.67	60
Others	115	65.34	61	34.66	176
Total	**241**	**65.67**	**126**	**34.33**	**367**
Main Business					
Trade	19	100.00	0	0.00	19

Profession/Service	79	79.00	21	21.00	100
Other	60	58.82	42	41.18	102
Agriculture	83	56.85	63	43.15	146
Total	**241**	**65.67**	**126**	**34.33**	**367**

6.5 Qualitative aspects of Banking services

Performance in financial inclusion can be evaluated from two angles: quantitative and qualitative. Quantitative performance in financial inclusion can be judged from the number of persons who have an access to financial services. Qualitative performance can be judged from the point of view of efficiency and frequency in the use and provision of financial services. Qualitative performance in financial services can be judged from three angles:

1. Awareness about financial services: The percentage of respondents who are aware of no frills account is low (3.27%) as compared to awareness of General Credit Card facility (4.63%), but very low in respect to the knowledge of mutual fund products and insurance services, as the respondents have above 67% awareness of these products.

2. Use of these services: The percentage of respondents who use no frills account, General Credit Card facility and overdraft facility is even lower than their awareness. Moreover, more than half of the account holders are using either only saving deposit services or only loan facility. Very insignificant number of respondents uses both the services.

3. Perception of the users about the quality of delivery of financial services: The respondents who are satisfied with the opening and closing time of bank branches are very low. Regarding the question whether bank officials cooperate and encourage the respondents to make use of banking services in rural areas of district Hisar, the percentage of respondents who agree with the above statement is very low. Another question examining the quality of banking services is whether the bank officials are efficient and professionally competent. In this respect, this percentage is quite good or at least better. For question relating to difficulty in working system of banks, a lot of respondents are there who find the bank working system difficult. The next question seeks to examine whether the respondent feels that he makes use of banking services conveniently. Most of the respondents disagree to this. In the last question as to whether the bank branch is situated at the nearest and convenient place, it was observed that these villages do not even have a bank branch. Most of the respondents who do not have a bank account have replied that they do not have a bank account till now due to the fact that there is no bank branch in their village and not even near the village.

6.6 Problems faced by the villagers

Following is the list of problems faced by the respondents in relation with the bank followed by suggestions given by them to provide services to serve them better. Most of the problems and suggestions are genuine. There are some problems that need to be addressed urgently.

1. Too much formalities/ paper work to get an account opened.
2. Problem with opening and closing timing of banks.
3. Bank is at far distant from the village.
4. Depositing cash and other processes are very time consuming.
5. Employees of the bank don't talk well.
6. Employees of the bank don't help whenever needed.
7. Attitude of bank employees and post office clerks towards customers is not cooperative.
8. No help offered and misguidance to illiterate people by bank employees.
9. Lack of professionalism and delay in transactions.
10. Working system of banks is not good.
11. Bribes taken to sanction loans.
12. Getting a loan is a difficult process.
13. Banks do not give loan to those who are willing to return.
14. Don't give loan to students for their education.

6.7 Suggestions given by the respondents

There are suggestions that need to be considered.

1. Excessive documentation for opening of bank account or on sanction of loan should be minimized.
2. Reduce excessive paper work and simplify procedures so that it does not consume much time.
3. Working hours of banks should be increased.
4. Free account should be opened for poor people.
5. The provisions of getting a loan should be eased out which will lead to increasing the loan facility and decrease the interest rate on loans.
6. Give proper training to the bank staff to serve the bank customers better.
7. There should be some guidelines for bank employees.

8. Bank employees should carry helpful and cooperative attitude towards customers- especially poor and uneducated people.
9. More number of branches should be set up in rural areas.
10. No hidden costs should be charged without prior knowledge of the customers.
11. Flexibility and transparency in the bank procedures and more customer related services.
12. Organizing campaigns for creating awareness about No Frill A/c, GCC etc.
13. Separate window for enquiry and the person sitting there should satisfy all enquiries.
14. Banks should clearly tell the amount of minimum balance for an account.
15. Government should take the initiative of promoting banks.
16. Banks should not think of only filling up of quotas for the schemes launched by RBI. They should try to provide the schemes to people who actually come under the scheme.
17. Increase interest rate on savings account as it will serve as incentive to save more and will improve usage of bank account.
18. In ATM there should be proper facility for transferring money also.

7. CONCLUSION AND SUGGESTIONS

It is clear that only awareness is not enough but a multi-disciplinary approach is the need of the hour. Financial Institution should stop viewing Financial Inclusion as mere corporate social responsibility but consider it as a business opportunity. Mere access to the affordable banking does not solve all the problems associated with financial exclusion. There is a need to promote the use of banking services as well as to increase access to them. In Indian context, the Indian Govt. and RBI are taking appropriate steps to achieve the goals of Financial Inclusion. These endeavors have brought considerable success but considering the vastness of our country and the economic condition and level of awareness of the people we will have miles to go. The current study shows that there is lot more scope for banks to include people financially to give way to inclusive growth. Initiative taken by RBI is not helping those who actually need their help or say for whom bank has taken the initiative i.e. RBI's initiatives are not reaching those for whom RBI has taken the initiative. It has been rightly said by Dr. Rangarajan in his report on the Committee on Financial Inclusion, January 2008, "Financial Inclusion is not an **option** but a **compulsion**".

8. LIMITATIONS OF THE STUDY

Although earnest efforts have been made to analyze the extent of Financial Inclusion in rural areas of district Hisar, however the study suffers from the following limitations:

1. Due to time constraints, the research could not be made extensively. Only 367 households could be covered in the selected area. Attitude of the respondents also posed a limitation for the survey.
2. As per my understanding a few of the respondents were hesitant to reveal the true information.

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