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Financial Inclusion and Explaining Variation in Use of Financial Services in Rural Households

Mohammed Anwar Sadath.P[1], Sajeer.K[2] and Sarun Krishna.Pk[3]

[1,2,3]M.Com Business Finance Department of Commerce Pondicherry University
Email: [1]anwarsadath2010@gmail.com, [2]komballisajeer7@gmail.com, [3]sarunkrishnapk6@gmail.com

Abstract: *Financial inclusion is not a new term in the banking scenario. From the period of Indira Gandhi government they started the policy of financial inclusion by the way of nationalization of banks till now the Narendra Modi govt has also focused on the goal of financial inclusion through PMDJY(Pradhan Mantri Jan Dhan Yojna).But only taking a savings bank account is nothing to contribute to the development of a nation. The rural households are reluctant to take part of banking transactions. The decreased usage of banking services in rural areas is still a major concern for national growth. So the study is focused on the reasons for the variation in use of banking services in rural households and how effectively a bank can make use of accounts opened under the label named financial inclusion.*

Keywords: *Financial Inclusion, PMDJY, Usage of banking services.*

1. INTRODUCTION

The World is moving at an amazing pace. Thanks to the advances in technologies, distances have become meaningless. Globalization has enabled the rise of global trade leading to wealth generation in developed as well as developing countries. Wealth can be created in any part of the world with a single click of the mouse. Developing nations, like India have immensely benefited from the globalizing economy. Wealth has been pouring into the country as investments (both direct and institutional).Indian companies are acquiring companies all over the world, hence benefitting from expansion. This has directly affected the lives of many citizens in our country. For many, there has been a dramatic increase in the disposable income. The savings, consumption and investment patterns have changed in the past few years. This has meant that there has been an increase in demand for many financial services from different financial firms.

The market has responded to this soaring demand with making attractive offers and services for the customers at affordable rates. The liberalization of the economy in the 1990s has brought in new players into the field which has not only brought in some much needed fresh air to the stagnant financial sector but also competition for the same market space which was relatively unknown in the financial sector till then. Since then, there have been progressive reforms in the financial sector allowing for better and easier facilities and options to the consumer. An increasing financially aware middle class have realized the importance of financial services. Banks have streamlined and rationalized themselves to meet with the changing demands of the people. Banks have become partners in growth for many offering them a safer and secure future.

However, not all the reforms in the financial services sector have still been able to bring in the other half of India's population who are rural. The new surge in the economy has not yet percolated into the lower strata of the society. It is easy to blame the capitalist growth for this sort of income disparities. Even after 67 years of Indian independence, 26%[1] of our population is still illiterate (let alone financially literate) and at least 29.5%[2] of the population still lives under the poverty line. There are many statistics, which goes on to prove that for even a developing nation India has a long way to go.

Most of the financially excluded[3] population of India lives in rural areas; nevertheless, there is also a significant amount of the urban population of India who face the same situation even with easy access to banks. Many of the financially excluded in these areas are illiterates earning a meager income just enough to sustain their daily needs. For such people, banking still remains an unknown phenomena or an elitist affair. It is easier for them to keep their money at their house or with some moneylenders and easily make immediate purchases (which make up most of their expenditure) rather than to follow the cumbersome process at banks. A lot of the financially excluded populations are at the mercy of moneylenders or pawn shop owners. They should be made a part of the formal banking structure so that they could also have the benefits that the others enjoy. By making them financially inclusive, we are making their financial position less volatile. At the same time, we are treating them on an equal par with other members of the population so that they would not be denied of access to a basic service such as banking.

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[1] 15th Indian census report 2011.
[2] According to Rangarajan committee on poverty line estimation.
[3] Here financial exclusion means that the rural customers who are not actively taking part of banking system.

2. FINANCIAL INCLUSION

The word Financial Inclusion could be described as being the opposite of financial exclusion. However, financial inclusion is more of a process rather than a phenomenon. It is a process by which financial services are made accessible to all sections of the population. It is a conscious attempt to bring the un-banked people into banking.

"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, 2008)

Financial Inclusion does not merely mean access to savings or current account on its own. There could be multiple levels of financial inclusion and exclusion. At one extreme there is active participation of people in banking arena on the other hand people reluctant to participate in banking transactions. Financial Inclusion allows the state to have an easier access to its citizens, with an inclusive population, for e.g.: the government could reduce the transaction cost of payments like pensions, or unemployment benefits.

It could prove to be a boon in a situation like a natural disaster, a financially included population means the government will have much less headaches in ensuring that all the people get the benefits. It allows for more transparency leading to curtailing corruption and bureaucratic barriers in reaching out to the poor and weaker sections. An intelligent banking population could go a long way by effectively securing themselves a safer future.

3. THE OBJECTIVE OF FINANCIAL INCLUSION

- Access to various mainstream financial services e.g. saving bank account, credit, insurance, payments and remittance and financial and credit advisory services.
- The main objective is to provide the benefit of vast formal financial market, & protect them from exploitation of informal credit market, so that they can be brought into the mainstream.

What is considered as mainstream financial services necessary for financial inclusion of rural households?

- Basic saving bank account- an account with all basic feature of saving account.
- Payment and remittances services –
- Immediate credit – in case of contingencies like accidents, medical treatment etc., they should be provided immediate credit.
- Entrepreneurial credit – this means, to run/expand small scale business/shop or any economic activity, easy credit should be provided, so that financial dependence can be created amongst households.
- Housing finance- funding for purchasing new residential or reconstruction
- Insurance – life\health care- to plan future better
- Financial education\credit counseling centers – to guide them which product suits them better, where to go credit needs, what are various services available to better their personal financial planning.

Financial Inclusion therefore, is delivery of not only banking, but also other financial services like insurance, pension, remittance, mutual funds, etc. delivered at affordable, though market driven costs. Opening a no-frills account is just a beginning to a continuous process of providing banking and financial services. Once the first step of safety of savings is achieved, the poor require access to schemes and products which allow their savings to grow at rates which provide them growth beyond mere inflation protection.

4. LITERATURE REVIEW

Gallardor (2006) observed that, there are some problems of the financial services in rural areas. Demand of financial services in rural areas has increased but small population size results in high cost and makes financial services less attractive to people in these areas. The capacity of the financial institution is weak to provide appropriate financial support in the rural society. Hence, there is a need of cost effective alliances of financial institutions with society. Financial institutions find it difficult to provide credit in the rural areas because of limited capital resources; hence they just concentrate on non-credit services only, such as, payment, money transfer and safeguarding savings.

Info Resources (2008) also highlighted various challenges to rural financial services; the most important of these challenges is the high transaction cost. Financial services are not available in rural part mainly because of difficult topography and weak configuration of infrastructure. Unavailability of financial institutions, banks and ATMs, forces the residents of rural areas to travel long distances to cities for getting financial services. The another challenge of rural financial services is high credit risk, due to dependency of income on an agricultural production which is based on fluctuating weather conditions and fluctuation of prices in an agricultural sector.

Rangarajan Committee (2008) on financial inclusion stated that: "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." The financial services include the entire amount of savings, loans, insurance, credit, payments, etc. The financial system is expected to provide its function of transferring resources from surplus to deficit units, but both deficit and surplus units are those with low incomes, poor background, etc. By providing these services, the aim is to help them come out of poverty.

Study of Ramji (2009) conducted to measure outcomes of the financial inclusion drive to understand processes and uncover perspective and dynamic behind financial inclusion, also observed that the household bank accounts have increased considerably (doubled) during the financial inclusion drive period. These accounts had been opened to receive government assistance. But the uses and awareness of accounts remain low, as people withdraw money as soon as this comes in account. According to this study Self-Help groups in rural areas were very popular for savings. The study concludes, that though government assistance programs are good to include big household population with low-income in financial system but does not often lead to uses. The study stressed upon enhancing financial literacy and marketing for optimal utilization of bank accounts.

Pai D. T (2012, November) said that financial literacy refers to Knowledge required for managing personal finance. It is an integral part of the financial inclusion. It is not just about imparting the financial knowledge and information. It is also about changing the behavior in the financial pattern and activities of individuals. The ultimate goal of the financial literacy is the empowerment of people to take action by them that are in their self-interest. When the people know about the financial products available and when they are able to evaluate the merits and demerits of each product for their specific needs they are in a better position to decide what they want and feel empowered in meaningful way.

Ghatak (2013) realized that despite of efforts to improve supply side of access i.e. banking expansion, improvement in financial performance, greater competition and diversification of ownership of banks, by government and central bank of developing countries the existing banking practices tend to exclude vast section of population. The study observed that the most important factors influencing demand side includes Income, Accessibility, Culture, Literacy and Assets. Financial Inclusion in opposite sense may be explained as ‘Financial Exclusion’. Lack of availability of appropriate, low cost, fair and safe financial product and services to certain segments of society, supplied by mainstream suppliers is financial exclusion.

5. RESEARCH DESIGN AND METHODOLOGY

Objectives

- Identify the variation in use of banking services in rural households.
- Suggest measures to improve the participation of rural households in banking structure.
- How effectively a bank can make use of accounts opened under the label financial inclusion.

6. SCOPE OF THE STUDY

The study is undertaken in the rural areas of Calicut district of Kerala, South India. The scope of data collection is restricted to the rural households who are daily wage earners engaged in farming or construction. By conducting the study in Kerala make sense that it achieved 100% financial inclusion in all the districts.

7. SAMPLING

Making the census study of the entire universe will be impossible on the account of limitations of time and money. Hence sampling procedures representative data of the entire Population.

Sampling method: Convenience sampling was used here because the study isnot restricted to anyway.

8. SAMPLING TOOL

Questionnaire was used as a tool for the collection of data, mainly because it gives the chance for timely feedback from respondents. Moreover respondents feel free to disclose all necessary detail while filling up a questionnaire. Item were answered on a five-point Likert scale. The measure contains items for cost of service, complexity, accessibility, literacy level, psychological and cultural factors, unsuitable product and staff attitude. These seven aspects captured using the questions; “The service charge levied by the bank is a factor inhibit from availing basic banking services (Cost of service) and “the complexity involved in the banking transaction is a factor inhibit from availing mainstream banking services (Complexity), likewise other five factors.

Sample size: The size of the sample is limited to 100 respondents.

Sampling unit: Rural households in Calicut district of Kerala, who are daily wage earners or farmers.

Period of study: Calendar year 2014-15.

Tools used for the analysis: Regression using spss.

Dependent variable: Usage of banking services

Independent variables: Cost of service, complexity, accessibility, literacy level, psychological and cultural factors, unsuitable product and staff attitude.

9. LIMITATIONS

The study is conducted within the district of Calicut only. The sample is limited to 100 correspondents only.

10. DATA ANALYSIS AND INTERPRETATION

SPSS stands for Statistical Package for the Social Sciences. This program can be used to analyses data collected from surveys, tests, observations, etc. It can perform a variety of data analyses and presentation functions, including statistical analysis and graphical presentation of data.

Regression allows you to predict variables based on another variable. Multiple regressions are an extension of bivariate regression. Rather than having only one independent variable in the regression equation, multiple regressions includes more than one independent variable in the equation. By incorporating more than one independent variable in the analysis, multiple regressions predict the dependent variable taking multiple factors into account. It also examines the effect of each independent variable on the dependent variable while holding the effect of other variables constant. In other words, multiple regressions identify the unique contribution of the individual independent variables, while controlling for the effects of other independent variables.

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Usage4	2.1100	1.01399	100
Cost of service	2.7700	.78951	100
Complexity	2.7400	1.03103	100
Accessibility	3.3000	1.07778	100
Literacy level	2.8600	1.11028	100
Psychological and cultural factors	3.0700	1.11242	100
Unsuitable product	2.3300	.88825	100
Staff attitude	3.0000	1.17207	100

Descriptive statistic shows the mean, standard deviation and no.of observations. The mean value of 2.11(Table1) in usage of banking services indicates that the rural households are taking part with the banking system once in a quarter i.e. the rural households are reluctant to access formal banking structure. The standard deviation doesn't show much difference.

11. MODEL SUMMARY

It provides an overview of the results R, R Square, Adjusted R Square .R is a measure of the correlation between the observed value and the predicted value of the criterion variable. In our model this would be the correlation between the levels of usage of banking services reported by our participants and the levels predicted for them by our predictor variables. R Square (R2) is the square of this measure of correlation and indicates the proportion of the variance in the criterion variable which is accounted for by our model.

Of primary interest are the R Square and Adjusted R Square values, which are .724 and .703, respectively (Table2). We learn from these that the weighted combination of the predictor variables explained approximately 70% of the variance of usage of banking services. Using the standard regression procedure where all of the predictors were entered simultaneously into the model, R Square Change went from zero before the model was fitted to the data to .724 when the variable was entered.

Table 2: Model Summary

Financial Inclusion and Explaining Variation in Use of Financial Services in Rural Households	Financial Inclusion and Explaining Variation in Use of Financial Services in Rural Households	Financial Inclusion and Explaining Variation in Use of Financial Services in Rural Households	Financial Inclusion and Explaining Variation in Use of Financial Services in Rural Households	Financial Inclusion and Explaining Variation in Use of Financial Services in Rural Households
1	0.724	0.703	0.55304	1.313

a. Predictors: (Constant), Staffattitude, Costofservice, Literacylevel, Complexity, Unsuitableproduct, Psychologicalandculturalfactors, Accessibility

b. Dependent Variable: Usage

The Durbin-Watson test statistic tests the null hypothesis that the residuals from an ordinary least-squares regression are not auto correlated against the alternative. The Durbin-Watson statistic ranges in value from 0 to 4. A value near 2 indicates non autocorrelation; a value toward 0 indicates positive autocorrelation; a value toward 4 indicates negative autocorrelation. As a very conservative rule of thumb, Field (2009) suggest that values less than 1 or greater than 3 are definitely cause for concern. Here Durbin Watson statistic shows 1.313 (Table2) which means no auto correlation.

Table 3: ANOVA

Model	Sum of Squares	Mean Square	F	Sig.
Regression	73.651	11	34.4	.000b

The table labeled ANOVA in the SPSS output provides the results of a test of significance for R and R square using the F statistic. In this analysis, the p value is well below .05 ($p < .001$)(Table3), and therefore, we can conclude that R, R2, and Adjusted R for the multiple regression conducted predicting the variance in the usage of banking services on the linear combination of staff attitude, cost of service, literacy level, complexity, psychological and cultural factors, unsuitable product and accessibility.

[4] The five point Likert scale value in usage of banking services in the following manner
1: yearly, 2: quarterly, 3: monthly, 4: weekly and 5: daily.

12. MULTICOLLINEARITY

In multiple regressions, independent variables included in the analysis should not have a strong linear relationship to each other. When there is a strong relationship among the independent variables it is referred to as Multicollinearity. When there is Multicollinearity, the two independent variables already share much of the information about the dependent variable and the analysis will not be able to distinguish the effects of one over the other (Allison, 1999; Norusis, 2009)... SPSS will conduct a diagnosis for Multicollinearity by computing variance inflation factor (VIF). The general rule of thumb is when any VIF is greater than 10 there is a Multicollinearity problem (Stevens, 2009). The tolerance values are another measure of the correlation between the predictor variables and can vary between 0 and 1. The closer to zero the tolerance value is for a variable, the stronger the relationship between this and the other predictor variables. SPSS will not include a predictor variable in a model if it has a tolerance of less than 0.0001.The tolerance and VIF shows satisfactory values in table4 so there is no multicollinearity.Each predictor variable selected for the study is independent.

Table 4: Coefficients

	Standardized Coefficients	Sig.	Collinearity Statistics	
Model	**Beta**		**Tolerance**	**VIF**
(Constant)		0		
Cost of service	0.104	0.25	0.371	2.696
Complexity	0.266	0.01	0.349	2.869
Accessibility	-0.055	0.65	0.203	4.935
Literacylevel	0.298	0	0.335	2.988
Psychological and cultural factors	0.072	0.51	0.261	3.826
Unsuitable product	0.291	0.01	0.285	3.513
Staffattitude	0.035	0.76	0.242	4.126

13. BETA (STANDARDIZED REGRESSION COEFFICIENTS)

The beta value is a measure of how strongly each predictor variable influences the criterion variable. The beta is measured in units of standard deviation. For example, a beta value of 2.5 indicates that a change of one standard deviation in the predictor variable will result in a change of 2.5 standard deviations in the criterion variable. Thus, the higher the beta value the greater the impact of the predictor variable on the criterion variable.

Here literacy level shows a higher beta value of .298(Table4) it means that the most important factor that results for the variation in use of banking services in rural households is the illiteracy. The next two important factors are the unsuitable product supplied by the bank and the complexity involved in the banking transactions which carries a beta value of .291 and .266(Table4) respectively. These are the three major factors that inhibit rural households from the mainstream banking services. The other four factors have not much influence especially accessibility of banking services.

14. FINDINGS

- Rural households transact with the bank once in a quarter, the most interesting fact is that the transaction is related to govt receipts and payments like Aadhaar linked LPG subsidy.
- The accounts opened under the label financial inclusion stand idle, no more transactions are there.
- Most of the financial needs of the rural households are meted through money lenders and NBFCs (Non-Bank Financing companies).
- Literacy level of the rural households is the major factor that inhibits rural households from the realm of banking services followed by the complexity of processes and unsuitable product framed by the banking sector.
- Psychological and cultural factors cost of service and attitude of staff towards rural households has no more a concern to get in touch with the banking services.
- Through various schemes introduced by the central and state govt from time to time reduces the problem of accessibility.

15. SUGGESTIONS

- Improving financial literacy can have significant benefits for everyone, no matter what their age or income. By developing confidence, knowledge and skills to manage financial products and services, individuals will be better able to overcome or avoid financial exclusion.
- Improved financial literacy can increase economic participation and social inclusion, drive competition and market efficiency in the financial services sector.
- Improve financial literacy through conducting awareness programmes and joining hands with govt and non govt entities to stimulate financial education.
- Reduces the complexity of banking procedures to enable them to make their transactions simpler and easy within short time.
- Banks should establish separate counters for illiterate persons; it will enhance customer satisfaction and increased participation.
- Frame products suiting to the needs and wants of the rural households.
- Daily based collection scheme for rural households because they are mostly daily wage earners.
- Small lot saving schemes for rural households.
- More number of ATMs is to be placed in rural areas.

16. CONCLUSION

To address the problem of variation in use of banking services will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with microfinance institutions and local communities. Banks can make use of advancement in technologies like ATMs and cash dispensing machines that can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English. The processes and procedures become simplified to attract more rural customers to the realm of banking arena.

To sum up, 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. Frame products according to the needs and wants of rural customers. 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 lower sections constituting “the bottom of the pyramid”, may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be a very profitable proposition. Financial inclusion can emerge as commercial profitable business. Only the banks should be prepared to think outside the box!

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