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A Study on the Challenges Faced By Customers In Financial Inclusion

Dr. Eugin Prakash Pathrose, Allen Baby, Dr. Uma Maheshwari M.

Senior Lecturer,
Emirates Institute for Banking & Financial Studies
Sharjah, UAE
Lecturer,
Emirates Institute for Banking & Financial Studies
Sharjah, UAE
(PhD Research Scholar at Karpagam University, Coimbatore)

Associate Professor
Dr. S.N.S Raja Lakshmi College of Arts & Science
Coimbatore, India

Abstract:
Inclusive growth' has now become the core agenda of the policymakers across the world. Economic catastrophes in the recent past have proved that for sustainable economic development, the fruits of economic development have to percolate to the bottom of the pyramid.
Financial inclusion through banking channels is clearly a critical step in this direction. Indian policymakers have taken many critical initiatives since 2005 to step up financial inclusion in India. All Commercial banks have been working under the directive of the Reserve Bank of India to ensure that every household has access to banking services. Though significant progress has been made, there are many challenges on the way. This study is a critical step in this regard, which aims to identify the key issues faced by the target population in accessing and using financial services. The study is focused on Kerala, which is amongst the top ranked States in India in Financial Inclusion.

Key terms:

Financial inclusion, Inclusive growth, No frills account, Banking Correspondent (BC), Kisan Credit card (KCC), Credit, Pradhan mantra jan-dhan yojana (PMJDY)

Introduction

The cornerstone of Inclusive economic growth philosophy is that the benefits of economic growth should be equitably spread across everybody in the country. No country in the world can take pride in the economic growth, when a large segment of the population of the country continues to be in poverty.

In a country of the size of India, ensuring equitable inclusive growth is a massive challenge. To ensure that the benefits of economic growth percolates to the bottom of the pyramid, it is critical to ensure that the delivery channels are robust and are devoid of leakages on account of corruption etc. Financial inclusion, through banking channels, has been rightly identified as the panacea for this.

Dr. C. Rangarajan Committee on Financial inclusion (2008), appointed by Govt of India to study Financial inclusion, defined financial inclusion as *"The process of ensuring access to appropriate financial products and services* *needed by all sections of the society in general, and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost"*

Across the world, many models of financial inclusion have been tried, mainly led by Banks and private players like telecom companies (like M-Pesa in Kenya). Indian policymakers primarily focused on a Bank led model of financial inclusion, where the objective was to bring the poor directly to the Banking channels.

Objectives of the Study

1) To study the current status of financial inclusion initiatives in India with a focus on Kerala State.
2) To identify the factors impeding the use of financial services by the customers
3) To suggest ways to overcome the issues to ensure effective financial inclusion

Scope and Significance of the study

Financial inclusion has become the cornerstone of economic policymaking in India. While many steps have been taken by the Government and RBI, the access and use of financial services continues to remain as a big issue. The focus of the study is to identify the factors affecting the access and use of financial services from the perspective of customers. The study is with respect to the state of Kerala in India, which is among the top ranked state in financial inclusion as per CRISIL Inclusix Index.

Research Methodology

For the study primary and secondary data was used. For the primary data, the respondents (in rural, semi urban and urban areas) in two districts of Kerala out of 14were contacted personally for data collection. The districts selected for the study were Pathanamthitta (ranked number one in the country according to financial inclusion index published by Crisil-Inclusix), and Idukki, covering two sides of Kerala geography.

The respondents were personally contacted for collecting the information. The information was entered into a structured questionnaire where they were asked to rank the factors which were impeding the effective access and use of financial services at Banks. Secondary data was collected from published and unpublished financial reports, papers, journals and websites.

Sample size:300 respondents were interviewed for the collection of the data. The sampling method used was convenience sampling.

Limitations of the study:

Time limit for the study was not sufficient for conducting an extensive research. The information collected from the respondents may be biased.

Context of Financial Inclusion in India

Indian economy has been witnessing an average growth rate of around 8% in the past decade, making it the second fastest growing economy in the world. The strong economic growth gifted the government higher revenues, which was redirected to social sector spending to lift the living standards of the poor in India. The period also witnessed initiatives like National Rural Employment Guarantee Act (NREGA), which promised guaranteed work for the rural poor.

The intentions of the policymakers remained rightly focused on uplifting people out of poverty. However it was a constant worry for all policymakers that the intended benefits were not reaching the right beneficiaries. It was because of the possible leakages in the delivery channels due to corruption, social factors, regional issues, lack of education of the beneficiaries and so on. It is in this context that the Government of India and Reserve Bank of India decided to focus on ensuring that the poor get their due by making them a part of the formal economy through banking channels.

Status of Financial Inclusion Initiatives in India

Several steps have been taken by the Government and the Reserve Bank of India to step up financial inclusion. The major steps include

- Permission to open branches in Tier III to Tier VI centers with population less than 50,000
- Permitting Banks to employ Banking Correspondents (BC), who will offer door to door banking service in rural areas
- Permitting the use of IT based applications to scale up inclusion efforts
- Simplifying the Know Your Customer (KYC) requirements for opening accounts
- Putting in place a Board approved Financial Inclusion Plans for all Banks to cover villages with more than 2000 population in a phased manner
- Introducing products like No frills account without minimum balances, Kisan Credit cards, Overdraft facilities etc.
- In 2014, August the Government of India launched the Pradhan Mantri Jan-Dhan Yojana (PMJDY), with an objective to have two accounts per household. The accounts opened under this scheme would come with a no frills account, a Rupay Debit card, 1 lakh rupees accident insurance and provisions for pensions in the future.

However with all this efforts, the access and use of financial inclusion in India remains very low. The table furnished below shows the result of the Financial Inclusion study conducted by World Bank across the world. This study (*Measuring Financial Inclusion- Global Findex Database, World Bank)* indicates that 35% of adults in India have accounts when compared to the global average of 50%. The position is further accentuated in the case of the low income group, where only 21% of people have access to Banking services.

The study also points out many other critical points about the low levels of usage of financial services in India. It indicates that just 8% of the population took a new loan from a formal banking channel in the past year. It also shows the very low level of usage of mobile phones for banking transactions, where just 4% of the population use mobile money. It has to be noted that in Kenya, nearly 67% of the population uses mobile money.

(Per cent)

	Share with an account at a Formal financial institution			Adults saving in the past year		Adults originating a new loan in the past year		Adults with a credit card	Adults with an outstanding mortgage	Adults paying personally for health insurance	Adults using mobile money in the past
	All adults	Poorest income quintile	Women	Using a formal account	Using a community based method	From a formal financial institution	From family of friends				
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

Source: World Bank Findex report on Financial Inclusion, 2011

Financial Inclusion in Kerala

Kerala, a Sothern state in India, has witnessed high social development, disproportionate to the economic growth. The social parameters ofliteracy, longevity, per capita income etc. in Kerala is highest in the country. The Kerala experience in this regard has been famously referred to as the 'Kerala model of development', by International economists like Amartya Sen. The ranking of 14 districts in India in this regard according to the CRISIL Inclusix Index is as follows:

DISTRICT	RANKING IN THE COUNTRY	DISTRICT	RANKING IN THE COUNTRY
Pathanamthitta	**1**	Wayanad	**24**
Trissur	**3**	Kannur	**32**
Ernakulum	**4**	Kozhikode	**33**
Thiruvananthapuram	**5**	Palaghat	**37**
Kottayam	**7**	Idukki	**44**
Alappuzha	**11**	Kollam	**43**
Kasaragod	**20**	Malappuram	**124**

Source: *Crisil-Inclusix Index, Ranking of 638 districts in all states in India*

Analysis

Analysis of the major factors hindering the opening and use of banking facilities among customers is as shown in the table below.

S.No	FACTOR	Number of Respondents	Percentage
1	Lack of enough money to save	75	25%
2	Lack of Financial literacy	54	18%
3	Availability of local sources of credit and savings	42	14%
4	Lack of attractiveness of financial assets (bank deposits) vis-à-vis other options like land, gold etc.	39	13%
5	Distance to the Bank or channels	27	9%
6	Cumbersome loan documentation process in a Bank	27	9%
7	Lack of trust in other banking channels like Banking Correspondents	18	6%
8	Other factors	18	6%
	Total	**300**	**100%**

FACTORS IMPEDING THE USE OF FINANCIAL SERVICES BY CUSTOMERS: KEY FINDINGS

1) Lack of enough money to save

This obviously is the prime challenge reported by households in achieving financial inclusion. Majority of the respondents feel that the money at their disposal for savings and investment is minimal for it be deposited in a Bank. This finding has also been echoed in the World Bank Findex study across the world as the prime reason for financial exclusion.

Finer details of the survey also merit a mention here. Many respondents also indicated that they opened an account in the recent past with a hope of getting benefits from the Government like the proposed transfer of subsidy for Cooking gas, loan waiver and other government schemes.

2) **Lack of Financial Literacy**

This is the second most important factor resulting in exclusion and poor usage of financial services offered by Banks.

- Financial literacy refers to the knowledge of the individual to do basic banking activities like deposits, withdrawals, Cheque, ATMs etc. Despite high levels of literacy in Kerala, the financial literacy remains a major challenge.

- Added to this is the lack of confidence to approach a Bank asking for some service. Many respondents feel that going to a Bank branch and meeting a Bank manager or other officials is a task which is meant for the elite and educated people. They also fear being looked upon by the Bank officials due to their lack of knowledge on banking products, time constraints of bank officials etc.

- Another major issue in this regard is the lack of awareness about the loans and deposits products that suit rural farmers etc. Though there are many initiatives from the Government which offers attractive rate of interest to farmers like Kisan Credit Card (KCC), Agriculture crop loans, farm equipment financing etc., most of the respondents are not aware of the same. The awareness of the collateral free loan facilities etc. is very minimal among the rural areas.

3) **Availability of local sources of Credit and Savings**

- Many respondents indicated that they can also raise credit from local sources like friends, local money lenders, regional Non-Banking Financial Institutions (NBFC), Gold Finance companies etc. Some of these Finance companies are informal and is unregulated.

- Many respondents prefer this over Banks, despite the higher interest rates, due to factors like convenience, emergency, existing loans, low documentation requirements, ease of approach etc.

- For savings, the use of local chit funds etc. is popular as it allows them to save money at regular basis (daily, weekly, monthly) on convenient terms. These local funds arrange for cash collection pickup on a daily basis, making it convenient for the customers. Another preferred channel of Savings is through the post office deposits and self-help groups. These are preferred over Banks due to their flexibility, reach and ease of access.

4) **Lack of attractiveness of financial assets vis-à-vis other assets like Land, Gold etc.**

A significant number of respondents also indicated that in case they had money, they would prefer investing in assets like agricultural land, gold or similar assets, over financial assets like Bank deposits

The reasons attributed for this preference include the additional income potential from land, appreciation of land, liquidity of gold for pledge or sale etc. Many don't understand the attractiveness of financial assets like Bank deposits etc. This results in a situation where the other assets are preferred over Bank deposits

While investments like gold are an attractive avenue for households, it has a negative impact on the overall economy. Cash invested in gold immediately exits the financial system and re-enters only on the event of sale which is generally after long period of time. This thus reduces the money multiplier effect, which would have been there in case of a bank deposit.

5) **Distance to Banks**

9% of the total respondents indicated that the non-availability of a banking facility in the form of a branch, ATM etc. in their vicinity is a reason why they decide to not make use of the Banking channels.

6) **Cumbersome loan documentation process in Banks**

This again is a key factor affecting the effective use of banking services. Customers feel that the documentary requirements for getting a loan are much higher in a Bank when compared to the other sources of credit. Customers feel that the Bank needs so many documents for their sanctioning process, which may not be with them or would be difficult to obtain.

The customers also face an issue as the loan documentations are mostly in English and not in their vernacular language.

7) **Lack of trust in new Banking channels like Banking Correspondents, IT based applications etc.**

After Reserve Bank of India (RBI) permitted the use of banking correspondents (BC), who go door to door to give banking facilities, many Banks have adopted such approaches in many rural areas. Banking Correspondents are allowed a variety of functions which even include collecting small value deposits and disbursal of small value remittances, debt counselling etc.

However many customers don't have full faith in the Banking Correspondent models and have many apprehensions about the same. Most of them feel that genuine Banking is only possible through the Branches of Banks. This raises the challenge of credibility of the Banking Correspondents. Although a vast majority of them use mobile phones, they are not comfortable about the prospects of doing banking transactions via mobiles.

This results in a problem of scalability for financial inclusion initiatives for Banks

8) **Other factors**

Other factors include factors like fear of bankruptcy leading to asset recovery, past experiences, experiences of friends, age profile, gender profile etc. These factors also act as stumbling blocks in ensuring access and use of financial inclusion.

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