CHAPTER VI

FINDINGS, CONCLUSION AND POLICY SUGGESTIONS

This study analyzes financial inclusion across sub-national regions in India using a representative RBI data, linked to State-level factors. The main contributions of this study are fourfold. Perhaps this is the first study which measured financial inclusion Index for Indian states for eleven consecutive years. As the second attempt this study measured the level of financial inclusion for districts of TamilNadu. Third, to the best of the researcher’s knowledge, this is the first attempt to bring in the factors responsible for under banking, un banking, and banking. Third, it provides empirical evidence of the household’s propensity to use formal financial services in Valathi village using a representative data set. And also it provides an assessment of the role of qualitative factors in financial inclusion, particularly among the Poor households.

6.1 Findings of the Study

Economic analysis of financial inclusion was done through keeping in view the four objectives specified earlier. The findings of the study obtained are being summed up

6.1.1 State wise Financial Inclusion Index of India

- In availability dimension Chandigarh, Goa, TamilNadu and Andaman and Nicobar scored more than 0.50 in all years from 2001 to 2011. Himachal Pradesh the first six years scores moderate in availability dimension after 2008 it has high score in availability dimension. Assam, Chhattisgarh, Nagaland, Manipur scores very
poor throughout the study period. North Eastern States like Assam, Meghalaya, Nagaland, Manipur, Mizoram, Tripura and Arunachal Pradesh ranks mostly last ten places in availability dimension. Mostly all states in availability dimension gradually shows improvement except Andaman and Nicobar. Sikkim and Haryana also has steady growth in availability dimension.

- In usage dimension Chandigarh, Goa consistently scored well in all years. Maharashtra score initially moderate, although in later years it reached above 0.5 in its achievement. Other all states keep count very poor in usage dimension.

- In banking penetration dimension Chandigarh, Goa, Delhi, TamilNadu, Andaman & Nicobar Islands, Pondicherry score was good in all years. Chandigarh little declined from its position from the initial stage that is 2001. Goa, Delhi, Andaman & Nicobar Islands and Pondicherry attained a gradual increase in Penetration dimension. Punjab, Kerala, and Himachala Pradesh scored moderately from 2001 to 2011. Uttarakhand, Karnataka, Maharashtra, Andhra Pradesh and Haryana initially scored less, while when it nears 2011 it score turn into moderate that is above 0.3. Other all states scored very less in this dimension.

- **In Financial Inclusion Index** Chandigarh leads with the highest value of IFI followed by Goa, Delhi, and TamilNadu. Only these four states belong to the high IFI group with IFI values of 0.5 or more. Another six states, viz., Andaman & Nicobar Islands, Pondicherry, Punjab, Kerala, Himachala Pradesh and Uttarakhand, form the group of medium IFI countries with IFI values between 0.3 and 0.5. All other states have a low IFI values, lying between 0.01 and 0.3. Nagaland ranks the lowest, 31st with IFI value 0.0 to .026 Chandigarh, Goa and Delhi comes under high financial inclusion category. Other all states fall into low financial inclusion category in
all consecutive years. It is a threatening situation. Particularly West Bengal, Meghalaya, Uttar Pradesh, Jharkhand, Rajasthan, Arunachal Pradesh, Madhya Pradesh, Tripura, Mizoram, Bihar, Assam, Chhattisgarh, Nagaland and Manipur have score near to 0.1 from 2001 to 2011.

➢ There is significant difference in financial inclusion among states but the difference among years were insignificant

6.1.2 Estimation of Growth Trend in State wise Financial Inclusion Index of India

Having estimated the FII for different states in India for the period of 2001-2011 the researcher has got a time series values which explained the progress of each state in terms of financial inclusion. Using that data the researcher estimated the trend of the financial inclusion indices for each state for over a period of time. Simple growth rate and compound growth rate can be estimated by using linear as well as quadratic regression models.

TamilNadu, Pondicherry, Punjab, Kerala, Himachal Pradesh, West Bengal , Uttar Pradesh, Rajasthan, Arunachal Pradesh, Madhya Pradesh, Tripura, Mizoram has significant quadratic trend in financial inclusion index. It implies that the effect of time on rate of change over time is strong.

Chandigarh, Goa, Sikkim, Meghalaya, Jharkhand, Orissa has a insignificant quadratic trend in its financial inclusion index. It implies that the effect of time on rate of change over time is weak.

Andaman & Nicobar, Uttarakhand, Karnataka, Jammu &Kashmir, Gujarat, Andhra Pradesh and Haryana has significant linear trend it its financial inclusion.

Delhi and Maharashtra has insignificant linear trend it its financial inclusion index.
6.1.3 Computation District wise Financial Inclusion Index for TamilNadu

Only Chennai score is good all years in penetration dimension. Coimbatore falls under moderate category. Other all states score were low. Here the surprising fact is Madurai score is very poor when compared with other districts which falls under low inclusion category.

Chennai achieve high in availability dimension that is one(1) in all consecutive years. Coimbatore, Thiruvallur, Nilgiris, Madurai initially scored above 0.3.After that all these districts scored less than 0.3. Tuticorin, Thanjavur, and Kaniyakumari initially struggled to remain above low score in availability dimension. In later years these districts hoist above 0.3 particularly kaniyakumari from 2002 itself it stayed above low score.Other all districts score was beneath 0.3 that is low score in availability dimension.

In the usage index only Chennai score is one. Other all districts score is very low.

Chennai fallen under higher financial inclusion group. Coimbatore scored medium financial inclusion during first five years of study but after that it declined to low financial inclusion. Other all districts scored very low in financial inclusion index.

➢ There is highly significant difference in financial inclusion among districts but the difference among years was insignificant.

6.1.4 Role of Socio Economic Variables in Financial Inclusion

The important socio economic variables like age, caste, religion, marital status, education, occupation, income and expenditure were analysed in detail.
Among the total respondents 519 respondents 48.6 percent has active accounts. 26.8 percent of the respondents do not have a bank account at a formal financial institution. In Valathi village, the inactive respondents were 24.7 percent.

According to government records this 24.7 percent of inactive respondents are considered as financially included. It is a caution that unless we evolve concrete polices to end under banking the problem will aggravate.

Households with female head had hard time in financial inclusion. They were more vulnerable compared to other households. In the study area nearly 85 percent of the households were headed by the males and another 15 percent were headed by women, who were widows and single mothers. It was observed that women have less financial inclusion than men.

In the present study a large number of households belonged to Hindu (67.6 per.) religion, followed by Jains (16.8 per.) and Christian (10.8 per.) Muslim (4.8). Jains have more active bank accounts as most of the families were business families. Muslim respondents have more active bank accounts because their family members reside in foreign countries. For remittance purpose they use banking services. The overall observation is that Christians were more financially inactive and unbanked in comparison with all other religions in the study area.

It is important to note that general category (77.3 per) people has more active accounts when compared with MBC (41.1 per), BC (49.8), SC (37.9), ST (22.7). The S.T’s exceeded other castes in financial exclusion. This is an indication that exclusion is mostly associated with the lower classes of society. It is their socio-economic marginality which is one of the causes of financial exclusion. They often live with social and economic inequality.

Large percentage of respondents was fallen in low income category. Majority of the respondents earned monthly income ranging from Rs.2000/- to Rs.5,000/-. They constituted about 44.1 percent. And also there is a strong relationship between caste and income. SC and ST population mostly falls in first two low
income groups. There is no unbanked respondents when the income goes beyond Rs 8000. Inactive account holders number also 5(10.2%) after 8000 rupees income. So income plays a major role for a person to be financially included or excluded.

The educational qualifications of respondents in the study area were very low. Only 46.8 percent of them were literates and 43.2 percent were illiterates. Even among the literates majority of them had only primary, high school education and higher secondary education except for 8.1 percent who had more than higher secondary education. Hence literacy rate was very low, which was an indication that education in rural areas was unreachable to many. Yet many among them in spite of having few years of formal education were not able to read and write as they have lost touch of it completely. This was an indication that the education had not yet made inroads into remote villages.

Illiteracy and low level of education clearly mirrored the occupational pattern and standard of living of financially excluded people. They were engaged in self-employment, casual employment and regular but low salaried occupations. The earnings of the respondents were meager and seasonal as well. As all the people were engaged in unorganized sector, primarily their wages were low and irregular, but wielded a lot of physical labour. The individual’s monthly income and family income ranged between Rs. 500 - 35,000/- respectively. Pearson Chi-Square statistic proved an association between education, and financial inclusion.

The economic well-being of a household is dependent on its stock of assets. As asset levels fluctuate less from day to day than income. Most of the unbanked people did not possess any asset. They did not possess any kind of wealth or security for the future. Their present economic conditions too were precarious. But a few unbanked seemed to have meager assets. The researcher observed that most of the SC, ST community people were living in huts and for that land also they do not have proper documents.
6.1.5 Uses of Having a Bank Account

The people being a heterogeneous group each individual and household may have their own reasons to open their bank account. Out of 519 respondents, 380 have bank accounts. Respondents felt saving as the main reason for their financial inclusion, attributing it with rank one. The accounts opened for saving money were more active (74.1). Another 24.7 percent of the respondents considered getting loans were the second important reason for having bank account. The bank accounts opened to receive government benefits were 81.7 percent inactive.

6.1.6 Informal Borrowing

Among the 519 respondents, 177 (34.1%) were borrowed informal loans. In that 149 (84.2%) of the respondents from unbanked and under banked category. Only 30 (11.4%) active account holders borrowed informal loans. The respondents who were excluded from formal financial stream depend more on informal loans than banked respondents. Among 177 borrowers, 141 respondents borrowed from money lender (Thandal loan). Most households borrowed informal loans for similar purposes like health, consumption, marriage and funerals. 38% of loans were used for health purposes, 12.4% loans were taken for funeral purposes, and 6.2% of the loans were taken for consumption and 9% for marriage.

6.1.7 Formal Loan and Financial Inclusion

In Valathi village, among 519 respondents, 176 (33.9%) borrowed formal loan. Among the formal borrowers, 13.6 percent were inactive account holders. After repayment of that loan they become inactive. In the surveyed village, 176 respondents borrowed formal loan. In that 24 (13.6%) were became inactive account holders. Among that 13.6 percent inactive account holders, 73.2 percent of them borrowed jewel loan. After jewel loan vehicle loan is borrowed in highest percentage (24.4%). All the vehicle loan borrowers belong to active account holders.
division. People who borrowed jewel loan and agricultural loan become inactive after repayment.

6.1.8 Direct Subsidy Transfer

Economists feel direct subsidy transfer as the solution for banking exclusion. So this study strives to find out the preferences about this scheme among people. In Valathi village among 139 unbanked people, 90.6% percent of them don’t prefer direct cash transfer. Among inactive account holders 84.4 percent of them don’t prefer this scheme. Among banked respondents 65.1 percent respondents prefer to get direct cash transfer. Uneducated respondents are not interested to have DCT when compared with better educated peoples. The preference for DCT goes higher when education attainment is more. Financial literacy also plays a major role in preference for direct subsidy transfer.

Multinomial Logistic results disclosed that income is an important factor that would enable households either to push into unbanked or under bank category. While increase in incomes shift house head from unbanked to under banked group, lower income forces them to be unbanked. The knowing level to access their account is highly statistically significant with negative coefficient. It points out that the odds in favor of unbanked, are greater than under banked, holding all other variables constant. This proves the earlier discussions and postulates that incidence of financial exclusion increases with the financial illiteracy. A one unit increase in age variable is associated with .039 decreases in the relative log odds of being in under banked vs. unbanked.

In the second panel, In the second panel the income of the respondent, and the education have positive coefficient. Respondents who earn better incomes and those who have better educations seem to escape from exclusion. The variables age and knowing to access account are statistically significant with negative coefficients indicating the odds in favor of banked are greater than unbanked. With the change in knowing to unknowing to access their accounts the probability of being unbanked is greater than being banked.
6.2 Significant Findings

- **In Financial Inclusion Index** Chandigarh, Goa, Delhi, and Tamil Nadu have high financial inclusion. Another six states, viz., Andaman & Nicobar Islands, Pondicherry, Punjab, Kerala, Himachal Pradesh and Uttarakhand, form the group of medium financial inclusion. Other all states fall into low financial inclusion.

- There is significant difference in financial inclusion among states but the difference among years were insignificant.

- Chennai fallen under higher financial inclusion group. Coimbatore scored medium financial inclusion during first five years of study but after that it declined to low financial inclusion. Other all districts scored very low in financial inclusion index.

- Among the total respondents 519 respondents 48.6 percent has active accounts. 26.8 percent of the respondents do not have a bank account at a formal financial institution. The inactive respondents were 24.7 percent.

- In the study area nearly 85 percent of the households were headed by the males and another 15 percent were headed by women, who were widows and single mothers. It was observed that women have less financial inclusion than men.

- The overall observation is that Christians were more financially inactive and unbanked in comparison with all other religions in the study area.

- There is strong association between socio economic variables like sex, education, income, asset holding and financial inclusion.
➢ Financially excluded respondents borrowed informal loans than financially included respondents.

➢ The bank accounts opened for receiving government benefits were more inactive. Jewel loan has been taken more followed by vehicle loans. Vehicle loan borrowers all were active account holders whereas jewel loan borrowers mostly inactive.

➢ Preference for direct subsidy transfer was strong among educated people. Financial literacy also plays a role in preference of this policy.

6.3 Conclusion

The present research has made an effort to study the economic conditions of financial exclusion by analysing the socio economic conditions and livelihood status of respondents in Valathi village. Such an empirical study and similar studies are essential to estimate the financial inclusion of the people at the macro level and also at the grass root level and to plan and execute policies and schemes to provide the same. Being an excluded from financial stream entails a host of deprivations and problems ranging from inequality in growth of individuals, to shrink of GDP growth rate and at last it hit national economic growth. It connotes causes insecurity to income and saving, create threat without insurance, and hammer business to mention a few.

The problems of financial exclusion were multi-dimensional. Majority of them were SCs and STs with low literacy rates with low income which was the primary indication that social stratification had marginalized them to a status of vulnerability.

Poor people save, borrow, and make payments throughout their lives. However, to use these services to their full potential they need well-suited products delivered responsibly. To provide financial products it requires attention to human and institutional issues, such as quality of access, affordability of products, provider
sustainability, and outreach to the most excluded populations. Financial inclusion helps to come out from poverty. The subsidy provided by Government on food, education, health was not able to alleviate poverty from the root level. There is a popular saying, for a poor do not give fish, give him a net, let him catch the fish. Most of the poverty alleviation programs provide fish to poor and not the net. Access to finance will provide the net to them. Access to finance provides opportunities for income earning, through creating employment opportunities on a large scale by providing loans to new small-scale entrepreneurs.

Dream of inclusive growth and poverty alleviation will not be complete until millions of micro-entrepreneurs created across the country. For every person who wants to be an entrepreneur the first challenge in front of him or her is finance. Financial access will attract international investors to our country and that will result in increasing employment and business opportunities. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. Financial inclusion is the significant to attain sustainable growth. For these entrepreneurs, broad access to financial services would smooth project financing, positively influencing growth and poverty alleviation. A strong financial system encourages expansion in the market and competition for existing firms also.

Provision of financial services to poor people need not only be for increasing income, empowering women, or starting small businesses – it may simply aim to help them “manage better what little money” they already have.

While the results from the study should be of help to policymakers and bankers as they consider innovative approaches to improve the participation of excluded populations in formal finance, this study is by no means a final evaluation of the financial inclusion drive. The diversity of districts in India implies that the problems encountered in other areas may be quite different from those encountered in Villupuram. However, the study does point us in the direction of a few key areas of concern which may help to improve future policy in this area, for instance issues related to financial awareness, marketing, and appropriateness of bank Products to
all. Access does not mean usage, under banking is the issue than un banking in front of policy makers.

6.4 Policy Suggestions and Recommendations

The study justifies the need to address the problem of financial exclusion urgently by the government and other stakeholders.

Financial inclusion has to considered vital need of the country and adopts appropriate inclusion policies and also a meticulous execution of the same in order to achieve sustainable society and improve standard of living of the people.

The government could motivate banks' participation into higher-risk markets by defraying their cost of entry (for example, through partial credit guarantees). In parallel, the government and financial institutions could jointly develop new financial products better suited for small enterprises.

Post offices a unique network by which to expand rural financial services, but it is highly underutilized. Unlocking the post office's potential will require the development of a comprehensive strategy consistent with postal and financial sector policies and other efforts to promote higher access to ICT.

Governments and financial service providers must recognise that poor financial literacy represents a significant barrier to accessing and properly using formal financial services. Increased financial education is also in the interests of banks and other providers, as people who are financially educated are more likely to use formal financial services. Specifically: Governments should seek to extend financial education, for example including financial education in the national school curriculum.
The study endorses creative use of the NREGP payments to enhance financial inclusion.

National policy frameworks should insist on maximum transparency for consumers so that they can fully understand any charges or fees attached to accounts.

Even though central government and state governments have been directed by the RBI to have financial inclusion programs, these programs should be region specific and area specific.

6.5 Directions for Future Research

This study raises several areas of possible research, examining the differences between active and inactive account holders. Based on the findings of the study, two major research directions emerge is:-

- How to increase the level of financial literacy amongst poor in an affordable manner?
- How to overcome the problem of trust deficit amongst unbanked customer towards commercial banks?
- However, the researcher believe that a supply-side survey detailing several dozen formal and informal savings products in TamilNadu—with a focus on product design features and commitment mechanisms—holds the most exciting potential for further research; this would complement the demand-side data collected and analyzed.
- The supply-side survey could also be extended to several key non-financial assets.
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