Chapter 1

Introduction

Financial inclusion is one of the most crucial policies constituted by the Indian Government and the Reserve Bank to bring in all the people to access and use of financial products and services in formal financial institutions at an affordable cost. Financial inclusion gained its utmost importance on the launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) by current Prime Minister of India, Mr. Narendra Modi, on August 15, 2014 to open zero balance bank account for unbanked population all over the nation. Through this scheme, 15 million bank accounts opened in a single day (Pradeep, 2014). Within the period of six months, the number of bank accounts opened were 13.5 crore. As of January 20 2016, the Finance Ministry reported that 20.38 crore bank accounts were opened and Rs.30, 000 crore were deposited through PMJDY scheme (Department of Financial Services, 2016).

Achieving complete financial inclusion all over the nation leads will eliminate poverty and alleviate social exclusion. International financial institutions like World Bank, International Monetary Fund and Bill and Melinda Gates Foundation promote financial inclusion worldwide, by conducting surveys and awareness campaigns. The prime aim of these institutions is to end poverty for which, they use financial inclusion policy as a key tool.

Financial inclusion gained worldwide popularity within a decade from its inception, because of its features. For instance, if a person wants to open a bank account, insure his life, and seek investment advice from a financial analyst, these activities together emerge out from a single concept called financial inclusion.

Financial inclusion is required not only for underdeveloped and developing nations, but also for developed nations, to sustain economic growth consistently. This study is undergone in select districts of Tamil Nadu among banked population to find out the state of financial inclusion. The major elements in the study are use, access, constraints to use and access financial products and services, and identify the level of financial inclusion through an index score.
1.1 FINANCIAL INCLUSION: A GLOBAL SCENARIO

Financial inclusion is ubiquitous policy to eliminate poverty and channelise all the financial transactions into a formal stream. Many global financial institutions are involved in promoting financial inclusion worldwide. These institutions monitor the level of financial inclusion by means of indices and indicators.

World Bank, a well-established development bank promotes and monitors the status of financial inclusion in 143 countries by means of index called Global Findex. The report of World Bank (2015) discloses that 60.7 per cent of the world adults have account in financial institutions. There are 27.4 per cent people from the above percentage save their money in a financial institution. Borrowings from financial inclusions are 10.7 per cent of world population. There are 40.1 per cent account holders having debit card for financial access and there is only 2 per cent population having mobile account for financial transactions. The International Finance Corporation (IFC), an international financial institution and one of the World Bank Groups is also associated in the promotion of financial inclusion.

Alliance for Financial Inclusion (AFI) is a group globally formed by Bill and Melinda Gates foundation to promote smarter policies of financial inclusion in developing nations. This group consists of more than 90 regulator institutions of different economies majorly from emerging nations. This group measured the status of financial inclusion mostly in African region and the data is suitable to the regulators for policy decision and implementation.

The International Monetary Fund (IMF) is an international organization that focuses on reducing poverty and increasing employment opportunities by means of international financial cooperation and stability. This organisation provides free access to the data source of financial inclusion, which is useful for wide scope of stakeholders.

The Global Partnership for Financial Inclusion (GPFI) is formed by G20 countries to promote financial inclusion, which has a partnership with World Bank, AFI, IFC, Organisation for Economic Co-operation and Development (OECD) and International Fund for Agricultural Development (IFAD). The formation of this
mechanism is to educate people about financial inclusion worldwide, including non-G20 member countries.

The above-mentioned global institutions reckon financial inclusion as one of the global development agendas. Achieving financial inclusion in toto will pave the way to eliminate poverty, unemployment and social exclusion worldwide. To find out the current state of financial inclusion in the world, the core indicators of World Bank for the years 2011 and 2015 were compared, which is exhibited in Chart 1.1.

![Chart 1.1](image)


The Chart 1.1 depicts that there is a modest increase in savings and borrowings. It is further identified that number of accounts opened and access to debit card have more than ten per cent increase. World Bank, in its report said that the number of bank account ownership has increased but not all are financially included.
1.2 FINANCIAL INCLUSION PATTERN IN VARIOUS COUNTRIES

Each country has its unique pattern for financial inclusion. The following points are the quick look of financial inclusion plan in different countries:-

i. In Brazil, extension of basic financial services in all the municipalities is a plan to extend financial inclusion.

ii. In Canada, the plan is provision of all financial services through regional rural banks.

iii. In Indonesia, the schema is expansion of financial services to all households.

iv. The plan of Kenya is to increase the ratio of savings and investments and, double the percentage of financial inclusion.

v. In Mexico, the plans are extension of financial services, improvisation in the level of financial literacy and capacity and, upgrade in data collection measurements.

vi. In Peru, the plan is to increase the knowledge regarding financial services, particularly among low-income households.

vii. In South Africa, all the people should have access to financial products and services especially bank savings and access to insurance products and services for life and short-term risk as well.

viii. In United Kingdom, the plan is to transform halve unbanked adults into banking system.

The above-mentioned points comprise information of developed, developing and underdeveloped nations that endorse in accomplishment of complete financial inclusion.

1.3 FINANCIAL INCLUSION: THE INDIAN CONTEXT

In India, Khan Commission initiated financial inclusion policy in the year 2004. The committee, it its report, urged all the banks to alter their policies in accordance with financial inclusion. The commission insisted banks to provide no frills account to transform vast unbanked society into bank account owners. Financial inclusion was speed up by Rangarajan Committee in the year 2006. The committee, in
its report in the year 2008 suggested all the branches of public sector unit banks to open 250 bank accounts at minimum in each branch every year.

The committee pointed out backlogs in achieving financial inclusion such as lack of collateral security, weak credit absorption ability among people and, high remoteness between bank branch and residence. The committee recommended to appoint business correspondents to serve unbanked regions and insisted the need of Self Help Groups (SHGs) in rural regions where the reach of banking services are NIL.

In the year 2013, Nachiket Mor Committee took over the progress of financial inclusion and reported the need of universal savings access through seeding aadhaar card. The committee proposed to setup payment banks whose prime purpose was to provide deposits and remittances to small businesses and low-income households. The committee brought out the recommendations in its report such as sufficient access to credit at affordable cost, Priority Sector Lending with lesser rate of interest, and consumer protection for all financial products.

Recently, Deepak Mohanty committee was setup in 2015 to take care of financial inclusion. This committee urged the reserve bank and the Indian government to enhance social cash transfer, increase account ownership among lower-income female groups, enable banking technology in mobile devices, augment SHGs, and provide subsidies and insurance to agriculture and crop. Apart from committees' recommendations, the institutions like Reserve Bank of India and World Bank have their contribution in the process of financial inclusion in India. Reserve Bank accomplished the following policies to enhance financial inclusion in India:-

i. Launch of basic savings bank deposit account,
ii. Simplification of Know Your Customer (KYC) norms and branch authorisation policy,
iii. Installation of more bank branches,
iv. Establishment of intermediate brick and mortar structures,
v. Formation of financial literacy centers,
vi. Initiation of payment banks,
vii. Maximisation in the usage of information and communication technology in banking sector

The status of financial inclusion in India as per the report of World Bank is illustrated in Chart 1.2.

![Chart 1.2: Comparison of Financial Inclusion Status in India for the Years 2011 and 2015](source)


It is depicted from Chart 1.2 that there is a drastic increase in account ownership, ATM usage and debit card access. There is a slight increase in financial institution savings and a fall down in formal financial institution borrowings. The result of borrowings notifies that there is an increase in usurers and informal lending. The reason for increase in debit card and ATM access is because of increase in number of account ownerships.
1.4 FINANCIAL INCLUSION IN TAMIL NADU

Tamil Nadu is one among the top five states/union territory in India, which has focused on financial inclusion. From the data of CRISIL Inclusix, it is reported that Coimbatore has topped in financial inclusion in Tamil Nadu. As of December 31, 2015, there are 9,791 bank branches in Tamil Nadu. It shows the scope of banking industry in this state and much possibility of financial inclusion because of many branches available to serve many people financially.

The maximum number of bank branches in Tamil Nadu is found in Chennai district with the number 1,421, which is followed by Coimbatore (700 branches) and Kancheepuram (564 branches). The districts with minimum bank branches are Ariyalur (70 branches), Perambalur (96 branches) and the Nilgiris (117 branches). It is identified that Tamil Nadu has wider scope of financial inclusion as there is a requisite for bank branch expansion in many districts. Tamil Nadu has six groups of banks such as State Bank group, nationalised banks, other public sector banks, private sector banks, Regional Rural banks and foreign banks. This classification is illustrated in Chart 1.3.

From Chart 1.3, it is depicted that the highest number of bank branches were found in nationalised banks that are available in rural region. However, when all the rural bank branches are summed up, it is lesser than the bank branches in semi-urban region.

1.5 STATEMENT OF PROBLEM

In India, because of government's push towards financial inclusion, the number of accounts ownership has raised from 35 per cent to 52.8 per cent within four years, says World Bank report (2015). It means there are 175 million new accounts opened between 2011 and 2014. By PMJDY scheme alone, 125 million accounts were opened in the year 2014 and the number goes on.

On one hand, the story in enhancing financial inclusion in India had a good start by opening millions of new bank accounts, which brought in many unbanked into banking domain. On the other hand, the percentage of dormant accounts in banking sector is 43 per cent that means 20 crore bank account holders are still underbanked.

Opening of bank account is considered as a stepping-stone to achieve financial inclusion in India, for which, the opening of zero balance bank accounts was rendered all over the nation. The Reserve Bank has spent Rs.130 for every single zero balance account to activate. It is identified that duplication of bank accounts occurred after Prime Minister's scheme that means the number of bank accounts figured out is not accurate.

The Indian government and the reserve bank are focusing on unbanked population by implementing various policies and schemes. However, the focus on difficulties faced by banked and underbanked population was less when compared to unbanked. If the grievances of banked and underbanked population are not redressed in a short span of time, the chances of increase in financial exclusion and poverty are high because the flow of money will vest in the hands of usurers. The continuous extension of financial exclusion and poverty will lead to financial crisis in the nation. It will result in social exclusion, which is a situation where the people will struggle to acquire their daily basic needs.
1.6 RESEARCH GAP

From the existing literature pertinent to this study, the following points are notified as research gap:-

i. Existing literature on financial inclusion were focused on unbanked population (Apparao and Krishna, 2016; Kumar, 2016; Antoniello, 2015; Mohan and Potnis, 2015; Rajput and Oberoi, 2015; Chandra, 2014; Khuntia, 2014; Singla, 2014; Verma and Singh, 2014; Akthar and Parveen, 2014; Arun, 2013; Niyogi and Niyogi, 2012)

ii. Mobile bank application was not considered as financial inclusion factor in existing Indian literature (Sathyan and Panda, 2016; Das, 2015; Das and Choubey, 2015; Sarma, 2015; Massara and Mialou, 2014)

iii. The existing indices for financial inclusion were viable only for national study, though a few researchers said that those indices were suitable for district and state level computation (Ambrakhane et al., 2016; Bose et al, 2016; Nandru et al, 2016; Adalessosi and Kaya, 2015; Shah and Dabhashi, 2015)

iv. A few studies were conducted to identify the financial inclusion status on demand side, that is bank account holders' side (Hastak and Gaikwad, 2015; Ranjani and Bapat, 2015; Somville and Vandewalle, 2015; Laha and Kuri, 2014)

v. The existing studies were exhibited only in percentage description and there was no statistical techniques used like one-way Analysis of Variance (ANOVA) and Pearson Correlation (Jain, 2015; Rai, 2015; Ranjani and Bapat, 2015; Aggarwal, 2014)

vi. There were no criterion found in previous studies to select district as study area (Shaik, 2015; Gwalani and Parkhi, 2014; Mir et al., 2014; Sarania and Maity, 2014; Viswanathan, 2014)

vii. Majorly the studies were conducted in a district or national or international level. There was no study conducted in this research topic in the districts selected for this study (Jhajj, 2015; Gorg and Agarwal, 2014; Sachdeva and Gupta, 2014; Sangwan, 2014)
1.7 OBJECTIVES OF THE STUDY

This study comprises the following objectives:-

i. To examine the extent of access to financial products and services amongst bank account holders

ii. To find out the usage pattern of financial products and services

iii. To infer the demand side obstacles confronted by bank customers

iv. To disclose the level of financial inclusion by formulating financial inclusion index

1.8 HYPOTHESES OF THE STUDY

The below stated are the null hypotheses formulated for this study:-

\[ H_0^1 \] Respondents' age will not influence frequent bank branches visit

\[ H_0^2 \] Income of respondents will not influence frequent bank branch visits

\[ H_0^3 \] Area of residence has no significant relationship with frequent bank branch visits

\[ H_0^4 \] Income of respondents will not influence the level of savings in bank

\[ H_0^5 \] Area of residence has no significant difference with access to bank branch

\[ H_0^6 \] Area of residence has no significant difference with access to ATM centre

\[ H_0^7 \] Access to respondents' mobile internet has no significant access to mobile bank application

\[ H_0^8 \] Respondents age and income have no influence with constraints to access financial products and services

\[ H_0^9 \] Access to financial products and services will not influence the usage of financial products and services

\[ H_0^{10} \] Problems to access financial products and services will not influence access to financial products and services

\[ H_0^{11} \] Problems to use financial products and services will not influence use of financial products and services
1.9 NEED AND SCOPE OF THIS STUDY

The routine activities of people consist of monetary value in it. The use of money depends on the needs and wants of the people. In India, most of the people strive to fulfill their needs rather than wants because they fall into the category of low middle-income group. People undergo monetary activities for different purposes, viz.:

i. Saving money in a safe and secured place to meet expenses related to children education and marriage, and to manage emergency situations like accident and illness
ii. Generating interest on money deposited in financial institution
iii. Insuring the life and assets to avoid huge loss and damage
iv. Sending and receiving money with other people
v. Obtaining loan to construct house, start or expand business
vi. Receiving pension in old age
vii. Availing micro credit in case of starting a small scale business and fulfilling working capital requirement

Institutions like banks, post offices and insurance companies could fulfill the above financial purposes as requested by customers. Though the list of financial institutions goes on, government and reserve bank trust bank to promote financial inclusion.

To substantiate the reason for trusting bank, the performance level of different financial institutions in India is stated below. This comparison consists of institutions that render financial services to people.

1.9.1 BANKS

People trust bank to deposit and transact their money in safe and secured manner. Banks in India majorly promote financial inclusion because of its extensive reach throughout the nation. There are different types of banks divided according to their functions. For financial inclusion policy, commercial banks play a higher role than cooperative banks and regional rural banks because the scope of commercial banks by means of deposits and advances, and the number of customers are more
when compared to other types of banks. In the year 2014, RBI setup payments banks exclusively to enhance the financial inclusion among low-income households, migrant labour workforce, small businesses, and other unorganised entities. It purports to enable high volume-low value financial transactions with affordable technology.

As of January 20 2016, the amount of deposits by PMJDY crossed Rs.30, 000 crore, which is happening through commercial banks and this data show the competence of commercial banks over other bank types and other formal financial institutions. The dawn of technology in banking sector started in the year 1980 in India, where credit card was introduced. In 1987, ATM was deployed and after a decade, internet banking emerged in the year 1997. In the year 2001, core-banking solutions were implemented followed by National Electronic Funds Transfer (NEFT) in 2005 and appointment of business correspondent (BC) models in 2006.

In the year 2008, the functioning of mobile banking was regulated and in 2010, Immediate Payment System (IMPS) was launched. From the above timeline, it was found that there was no development witnessed initially when the technology was introduced. After two decades, the revolution in banking technology has happened.

1.9.2 POST OFFICES

Post office is also an institution considered for financial inclusion as it renders some of the banking services like savings and deposits apart from its postal services. Indian government has planned to digitalise all the rural postal services by 2017 to connect all the rural people to the formal financial system.

At present, post offices do not provide full-fledged financial services like banks because of its conventional type of services and no e-services for monetary transactions like savings and deposits accounts.

1.9.3 MICROFINANCE INSTITUTIONS (MFIs)

Microfinance institutions were exclusively constituted to serve the vulnerable resided in remote regions and faraway from banks. These institutions lend small loans at a low rate of interest without any guarantee and the customer need to repay only 98 per cent of the loan acquired. In addition to loan, MFIs also provide non-
banking services like providing idea to start a business and managing money. MFIs have also provided mobile phones to people in rural Bangladesh. The mobile phones were leased with a small fee to rural people who can have a conversation to their family members for which, they usually travel miles for many hours. MFIs do not provide any facilities for savings and deposits to its customers. The body of MFIs consists of 55 Non-Banking Financial Companies (NBFCs) and MFIs. At present, it has distributed Rs.45,000 crore as loan for more than 45 million customers in the nation.

1.9.4 SELF HELP GROUPS (SHGs)

A group of more than 5 and less than 20 members, who save their money, generate capital and lend among themselves with a low interest rate is called as self-help group. The possibility of entrepreneurship is high through micro credit provided by this group. An account is maintained in a bank through which, the transactions are made. SHGs contain savings, deposits and loans. However, it does not have any technological advancement rather than online banking, which have group account and not individual account. Therefore, the access to the account will vest in the hands of any one member in the group.

From the above information with respect to different financial institutions and their functions, it is found that banks have the ability to provide all types of financial products and services to any customers at large and hence it is taken as the scope of this study.

1.10 THEORETICAL BACKGROUND

This study does not adapt any theory instead the general institutional structure of financial inclusion followed by global financial institutions is illustrated in Fig 1.1 and explained in brief.

1.10.1 FINANCIAL INCLUSION AND ITS INSTITUTIONAL STRUCTURE

Financial inclusion policy is promoted by formal financial institutions that offer financial products and services to all. The following are the formal financial institutions that render services by its ample products to different segments of the society:-
i. Commercial banks, regional rural banks, cooperative banks
ii. Post offices
iii. Insurance companies
iv. Micro Finance Institutions
v. Non-Governmental Organisations
vi. Financial advice companies

Apart from the previously mentioned institutions, individual and entities are eligible to act as business correspondent (BC) model to promote financial inclusion.

Source: Primary data compilation

Fig 1.1
Financial Inclusion and its Institutional Structure
Figure 1.1 exhibits the institutional structure of financial inclusion, in which, institutions provide the financial services according to its type. There are many financial institutions uplifting financial system, but banks rank first in providing financial services to the largest sector of population in India. Among all, banks provide all kind of financial products and services whereas other financial institutions provide specialised products and services for specific purposes. For instance, Micro Financial Institutions (MFIs) provides only credit with low rate of interest but it does not accept deposits.

1.11 A BRIEF PROFILE OF THE STUDY AREA

This study was conducted in four select districts of Tamil Nadu namely Dharmapuri, Tiruvannamalai, Vellore and Villupuram. The detailed explanation for selecting these districts is provided in Chapter 3.

Dharmapuri district is one of the important districts by means of its geographic location. It covers all the corporations of Tamil Nadu in 300km distance except two districts namely Toothukudi and Tirunelveli. This district also connects Bengaluru, Chittoor, Mysuru, Palakkad, Puducherry, Thrissur and Tirupathi in a radius of 300km. Dharmapuri district was declared by the government as one of the educationally backward districts in Tamil Nadu. As of March 2014, there are 103 bank branches in this district.

Tiruvannamalai district is one of the major pilgrimage centres and a temple town of Tamil Nadu. It is specialised in the activities of tertiary sector such as trade, transport, storage and communication. This district consists of all major nationalised banks and its branches such as Bank of India, Central Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank and State Bank of India and its associates. As of March 2014, there are 167 bank branches available in this district.

Vellore district is the third highest populated district in Tamil Nadu. It connects Kerala, Karnataka and Andhra Pradesh by road and rail. It also connects three major cities such as Chennai, Coimbatore and Bengaluru by road. This district has more number of schools in Tamil Nadu. Vellore district has 319 bank branches as
of March 2014, which are spread throughout. It is renowned for medical tourism and higher education by means of CMC Hospital and VIT University.

Villupuram district is geographically the largest district and has longest roads in Tamil Nadu. From this district, people can reach to any part of Tamil Nadu and other states. According to the Tamil Nadu government, this district is declared as one of the most backward districts and receives funds from central government. This district contains 232 bank branches as of March 2014.

1.12 LIMITATIONS OF THE STUDY

This study was conducted in select districts of Tamil Nadu. The respondents of this study were confined to bank account holders because of increase in percentage of account holders since 2014. To identify the bank account holders, the researcher has faced difficulties such as searching and selecting an appropriate place to collect data especially customers who walks in and comes out from the bank branches are requested to provide data.

In order to receive quick response from the respondents, the researcher used regional language to explain the contents of the questionnaire and enter data into the device instantly. This study used mobile device as data collection tool instead of paper based. On the usage of said tool, the cost and time were considerably minimised.

1.13 ORGANISATION OF CHAPTERS

This thesis is schemed with five chapters, which is described in brief below:-

Chapter 1 consists of introductory contents of financial inclusion such as global scenario, Indian context, Tamil Nadu status and agenda of various countries. Further, this chapter comprises statement of problem, research gap, objectives, hypotheses, need and scope, brief profile of study area and limitations of the study.

Chapter 2 contains the review of related literatures including definitions and its meanings that cover the major elements of the study such as usage, access, constraints faced by the respondents in financial access and use, and indices exist for financial inclusion.
Chapter 3 elucidates the design of research that covers identification of the population, sample size determination, sources of data collection, sampling tools and techniques for data selection, variables of the study and tools and techniques for analysis of data. Concisely, this chapter is the compilation of observational design, operational design, sampling design and statistical design of this study.

Chapter 4 comprises results and discussion of the study. This chapter is fragmented as two major parts viz. descriptive and inferential statistics under which, factors pertain to access and usage of financial products and services, level of financial inclusion using index, demand side obstacles faced by the respondents in the study area and socioeconomic status of the respondents were interpreted and inferred. Statistical techniques and index were used to analyse data.

Chapter 5 elicits the summary and conclusion of the study. This chapter also consists of scope for further research.