CHAPTER I
INTRODUCTION AND RESEARCH DESIGN

1.1 Introduction

Rural households face numerous constraints in their efforts to immune themselves against risks by accumulating assets. Lack of savings instruments makes it challenging for them to accumulate their risk capital. They invest in informal savings vehicles such as gold and other precious metals. These households for whom savings is a risk coping strategy have been saving even if the returns on these assets are minimal or inadequate. Lack of awareness and availability of savings instruments for rural masses keep their money idle, i.e., without savings in a proper medium. Though they have been saving, their motive is not to take advantage of the financial opportunities, but to save for their financial security.

For any household, real financial security is dependent on the foundation they have built which can help not only smooth consumption but also deal with emergencies. Even if the assets have negative returns, rural households have chosen it as a hedge against the risks. Some, who are lucky enough to stay close to a bank branch, invest in bank savings accounts or fixed deposits. In India, out of the 600,000 villages, only about 32,000 villages have access to commercial bank branches. The number of villages served by a single bank branch is 19, around 60 per cent of the rural population do not have any access to banks. Just over 40 per cent of the population across the country has bank accounts, and this ratio is much lower in the north-eastern region.1

Understanding the prevailing situation of poor banking and financial investment among the rural masses, the Reserve Bank of India initiated the international practice of including the common man in financial services.

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Financial inclusion is the fair, timely and adequate access to financial services that include savings, credit, payment and remittance facilities at an affordable cost, and in a transparent manner through institutional agencies adopted by the Reserve Bank of India (RBI) in 2006.

**TABLE 1.1**

**STATISTICS ON FINANCIAL INCLUSIONS**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total bank accounts</td>
<td>300 million</td>
</tr>
<tr>
<td>Unbanked population (rural)</td>
<td>60 per cent</td>
</tr>
<tr>
<td>Unbanked population (all India)</td>
<td>40 per cent</td>
</tr>
<tr>
<td>No. of villages in India</td>
<td>6,00,000</td>
</tr>
<tr>
<td>PSU, RRB rural branches</td>
<td>45,000</td>
</tr>
</tbody>
</table>

Source: Sreelatha Menon, Business Standard, RBI sets financial inclusion at a distance with 15 km cut-off, May 12, 2008.

An alternative structure to branch based banking, in order to ensure that financial inclusion and outreach of financial services to all citizens of the country, becomes an operational reality. Today, financial inclusion is a vital medium for extending growth and equitable development to rural India, since access and availability of banking and payment services to the entire population is essential for the creation of an inclusive and efficient economy, and for enabling India's sustainable and all-encompassing growth, providing the facilities to all Indians may appear to be a simple task, given the reach of urban banking and the benefits of technology to the rural masses.

However, India suffers from problems like low levels of financial literacy among the rural workforce, an adult literacy rate of about 67 per cent, poverty and low income levels, multiplicity of regional languages, difficult terrain in some
regions. This task of providing financial services becomes even more formidable, as the people who are to receive the services may first need to be made aware of their benefits. Thus, a demand needs to be created for the services, while the target population is gradually weaned away from its reliance on informal, flexible, easily accessible and often exploitative sources of credit and remittances.

On their part, the suppliers of these facilities, mostly banks, need to be convinced of financial viability and will open up new markets for their growth, while giving them access to large, new, low-cost deposits. For the financial inclusion efforts, on the supply side, the banks need to invest in technology, upgrade their existing server capacities, expand connectivity and computer-based banking solutions to the hinterlands, train their staff to be rural customer-oriented, and to provide service with a smile even though the time taken per transaction may be higher in the rural areas. The policy-makers and regulators also face the challenge of putting in place the regulations and provisions and to guide the banks and other market players to come forward and willingly take part in financial inclusion efforts, while still retaining the ability to monitor and supervise the facilities that shall be provided to millions of new customers in distant places.

Based on the discussion held above, it has been realized that a descriptive study could be undertaken to analyse the financial services awareness level and investment pattern of rural masses in India. The concept framed has been considered as the basis for the current study.

1.2 Statement of the Problem

The formal financial sectors in most developing economies serve only a minority, often not more than 20–30 per cent of the population. Most rural households do not have access to even basic financial services. A majority of those who do not have access are concentrated in low-income categories. Even those low-income households having access to finance are underserved both in terms of quantity and quality of products and services. Access to finance is not a magic
bullet capable of lifting poor people out of poverty. However, there is consensus that better access can play a potentially key role in inclusive growth and development. Hence, the problem of lack of access to finance for a majority of the people deserve a great deal of attention and must be addressed.

Household savings is important for several reasons: At the national level, household savings provide the main source of investment financing both government and the corporate sectors. Rapid GDP growth leads to rising household income and higher saving rates. This is true for India as it had been elsewhere in Asia. The individual household saving is done in order to achieve specific short-term and long-term goals, notably financial security.

Over the next decade, India needs to invest several hundred billion dollars for the infrastructure to support national development. Power, roads, ports and education should be expanded considerably to support higher rates of productivity and growth. Investments in the power sector could alone absorb US $100 billion or more.² Investment in housing and roads needs thousands of crores to generate millions of jobs. The combined requirements far exceed the amounts available for investment by the public sector. Providing attractive conditions for foreign private investment is one option, but this would result in long-term outflows not only for debt repayment as well as repatriation of high profits or foreign owned assets. This might be acceptable if there were no other alternative, but India has a more attractive option, that is utilization of non-productive funds of households both in rural and urban areas, by means of converting them into productive investment. This could be possible if the awareness on financial matters increases, and the rural masses are considered as the important sources for financial inclusive services. From this point of view, the study concentrates on the following research questions.

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² Prema Chandra Athukorala and Kunal Sen; “The Determinants of Private Saving in India”; The Australian National University, Canberra, Australia; University of East Anglia, Norwich, UK; January, 2001.
1. What are the socio-economic conditions of the rural masses in Coimbatore District and the correlation of the income, expenditure and savings pattern?

2. What are the rural masses’ awareness of the savings modes and investment avenues?

3. What are the various factors that determine the current savings/investment patterns of the rural masses?

4. How could we analyze the investment behaviour of the rural masses based on the risk patterns and necessity?

5. What are the perceptions of the rural investors towards the availability of modern financial services available to them in their region?

1.3 Significance of the Study

Financial exclusion has been predominant in rural areas primarily due to poor infrastructure resulting in lesser access to more sophisticated and modern financial services. This along with financial illiteracy, burdensome documentation and procedures insisted by formal sources of credit, lack of customized financial products, leads to financial exclusion of poor and low income citizens of India. Moreover, lack of credit history and absence of documentary proof of identity or address of the prospective borrowers become obstacles for formal sources of credit to provide access to financial services. Consequently, this segment of the population goes to informal sources of credit for their financial needs even though it is costlier.

In India, the last fifteen years witnessed growth in financial services unfolded by Liberalization and Globalization of financial services due to adoption of information technology and unlocking of the regularity frame work. But alongside this positive development, there are evidences that formal financial sector still excludes a large section of the population. So, financial inclusion represents reliable access to affordable savings, loans, remittances and insurance
services to the underprivileged people. "Project Financial Literacy" is one of the RBI's financial education initiatives. The Objective of the project is to disseminate information regarding the Central Bank and general banking concepts to various target groups, including school and college going children, women, rural and urban poor, defense personnel and senior citizens. It primarily implies access to a bank account backed by deposits insurance, access to affordable credit and the payments system.

Financial Inclusion facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. It improves the day-to-day management of finances. Further, it reduces the growth of informal sources of credit (such as moneylenders) which are often found to be exploitative. It enhances efficiency and welfare of the poor people by providing avenues for secure and safe saving practices and facilitates a whole range of efficient financial services.

As the Union Finance Minister has rightly said “Financial markets now offer complex choices to consumers, but literacy is essential for consumers to make informed choices”. The objectives of the financial literacy programme is to spread awareness and build skills of rural masses on clarity of financial concepts, making better financial decisions, accessing financial products and services, building assets, overcoming vulnerability, and planning towards economic security. Thus, the current study aims at analysing the rural investors' level of awareness towards modern savings/investment avenues and their perception towards availability of various financial services in their areas.

1.4 Scope for the Study

The researcher opines that the standard of financial literacy in the Indian retail investor base is one important determinant of the financial behaviour and financial preferences of retail finance customers. However, it has been observed from the reviews of various literature that there has been very little information or
understanding of financial literacy as a determining factor in the disposition of household investment pattern in India. Financial literacy is a huge significant issue for finance markets as it both diverts and distorts investment behaviour and the composition and direction of demand for the products of competing financial sector interests. The current study draws an outline of the financial services awareness level and investment pattern of the rural masses in India. It is believed that the findings and suggestions made in the current study will be useful to the large spectrum of analysts, researchers, academicians and experts in drawing and understanding the functional feasibility of the concept of financial inclusion.

1.5 Objectives of the Study

To fulfill the basic aim of the study, the following objectives are framed:

- To draw an insight into the socio-economic condition of the rural masses in Coimbatore District and to correlate their income, expenditure and savings pattern.
- To analyse rural households' level of awareness towards savings modes and investment avenues.
- To critically evaluate the influences of various factors that determine their current savings/investment
- To analyse the investment behaviour based on the risk patterns and necessity.
- To analyse the perception of the rural investors towards the availability of modern financial services to them in their region.

1.6 Hypotheses of the Study

The following hypotheses are framed to justify the objectives drawn.

- There exists no association between rural investor level of awareness towards safe/low risk investment, moderate risk investment avenues and their socio-economic status.
• There exists no association between rural investor level of awareness towards high risk investment, traditional investment avenues and their socio-economic status.
• There exists no association between rural investor level of awareness towards emerging investment avenues and their socio-economic status.
• There exists no association between rural investor level of awareness towards non-branch banking services and their socio-economic status.
• There exists no association between rural investor level of awareness towards technologically improved investment services and their socio-economic status.
• There exists no uniformity in the investors’ level of perception towards various factors that influence them in selection of saving/investment medium.
• Investors’ perceptions towards feasibility of financial services offered by various agencies in rural areas significantly differ from one to another.

1.7 Research Methodology

The research methodology of the study consists of two aspects – explorative and descriptive in nature.

The first stage of the research was exploratory in nature. This was done in two phases. The initial phase was to undertake a detailed review of the financial literature and the awareness and investment patterns of rural masses in India, especially in Coimbatore District of Tamilnadu. The exploratory research forms the basis for preparing the questionnaire for the next stage.

The second stage of the study was descriptive research, which was carried out by applying a survey method. Data for the study were collected from the rural investors in Coimbatore city. The tool used for data collection is questionnaire, which covered the demographic profile of investors, information on the patterns of savings/investment and various factors considered before investment and the selection of saving media/investment medium, rural investors’ perception towards
the financial service availability, consideration of their needs and wants and also the RBI regulation for promoting rural investment through effective promotion of financial literacy.

1.7.1 Significance of the Study Region

Coimbatore, also known as Kovai, is a major industrial city in the State of Tamilnadu. Coimbatore District scores over the state average in terms of several economic parameters. Coimbatore city has consistently outpaced the larger metros in economic growth rates, and it is witnessing strong growth in incomes. But even more significant is the changing lifestyles and aspirations, and the fundamental shift in the demographic mindset towards earning, spending and saving. The difference in earning between the urban class family and rural class family is also very wide around the Coimbatore city. The urban class earns an average of 85 per cent higher than their rural counterparts and also spends 71 per cent more and saves nearly double the amount of Rs.26,762 compared with Rs.11,613 every year as against per household income Rs.65,041\(^3\). The reasons behind saving also vary from people to people. The above stated reasons are considered very vital to select this region as the study area.

1.7.2 Sampling Frame Work

The city of Coimbatore was constituted as a Municipality in the year 1866 and was subsequently constituted as a City Municipal Corporation from 01.05.1981. The Coimbatore District functions with two revenue divisions i.e., Coimbatore and Pollachi with six Taluks, it has 12 blocks constituting 389 villages. The total population of Coimbatore District is 42,71,856 with 21,76,031 females and 20,95,825 males.

\[^3\] Raghavan Guruswami; "Delivery of Financial Literacy – Challenges, Approaches and Instruments"; workshop organized by the Reserve Bank of India; March, pp.22-23; Bangalore, 2010.
At present, the city population is 11,21,523 which is not taken for the study. Hence, the remaining 31,50,333 people who are living in villages are taken into account. The literacy rate of rural masses is 60 percent, therefore, the total population for the present study would be 18,90,200. Out of 18,90,200 in all villages only 5750 persons have studied above 10th standard. These persons are taken for the present study. Questionnaires had been sent to all of them, but only 3200 filled in the questionnaires and returned them to the researcher. Out of 3200, only 2050 questionnaires have been used for the study. The remaining questionnaires have not been filled in properly and correctly and hence they are not usable.

1.7.3 Data Source

The study is principally based on the primary data. The required primary data were collected with the help of well structured questionnaire after testing its reliability and validly measures. The secondary data needed for the study were sourced from RBI Bulletin, NSO (National Sample Survey) Information Bulletins, research works published in the journals, magazines and also from published and unpublished Ph.D. theses.

1.8 Statistical Tools Applied

According to the nature of data and interpretations required, appropriate statistical tools have been applied. The following tools have been applied in the study: Summary Statistics (mean and standard deviation), Co-efficient of variance (CV), Compound Growth Rate (CGR), Regression Analysis, Frequency Distribution, Weighted Arithmetic Mean, Likert's Scale, Chi-Square Analysis, Pearson’s Correlation, Kendall's Co-efficient of Concordance, Reliability and ANOVA and Rotation Factor Analysis.
• Summery Statistics (mean and standard deviation), CV and CGR were applied to measure the averages and distance variances in household savings components like; currency, bank deposits, investment in shares and debentures, investment in government claims, insurance funds, private provident funds and other means.

• Summery Statistics (mean and standard deviation) and CV were also applied to infer the rural householders’ savings and expenditure behavior.

• The regression model was performed to evaluate the influences of household savings and gross domestic saving of the nation. The dependent variable was gross domestic savings and the independent variables was household sector.

• The frequency distribution of the variables has helped the researcher to calculate distribution value of the variables tested.

• Weighted arithmetic means and Likert’s Summated scales helped in interpreting the averages on awareness level of the respondents towards various saving/investment medium, factors influencing rural householders to save or invest in a particular avenues, and to measure respondents perception towards feasibility of financial services available in their region.

• Non-parametric Chi-Square helped the researcher to define the association between rural investors’ level of awareness towards various savings and investment avenues and their socio-economic status. This test is also used to measure association between the investment experience of rural masses and their age.

• Pearson’s correlation was applied to measure the association between rural investors awareness towards various medium of saving and investment avenues.
• Reliability Analysis and F-test was applied to prove the fact whether investors have similar or differences of opinion towards their perception on the factors that influenced them to choose a saving medium or investment avenues. Investors’ perception towards feasibility of financial services offered by various agencies was also tested using this statistical tool. Cronbach’s Alpha was drawn to measure the association between awareness and various saving/investment avenues.

• Rotation Factor Analysis was applied to depict a simplified datum on the factors influencing rural householders in selection of savings/investment medium.

• Kendal’s coefficient of concordance test was performed to measure the association between the saving perceptions exhibited by the sample rural household investors.

1.9 Limitations of the Study

The researcher has taken all possible care and efforts to avoid the statistical discrepancies and maintained reliability of data supplied at the time of collection of data. However, the present study is subjected to the under-mentioned limitations:

1. The results are location specific as the data has been collected from the respondents of Coimbatore District and the conclusions drawn may not be applicable to a different district having different socio-economic conditions.

2. A few respondents were reluctant in expressing their opinion and views on their investment pattern and have expressed common view on their saving, investment pattern and also about financial literacy campaign conducted by RBI and other agencies, that could have supplied biased information on investment behaviour of individuals.
1.10 Chapter Scheme

Chapter I deals with the introduction and research design of the study. It includes the statement of the problem, conceptual framework of the study, scope of the study, objectives, hypotheses, research methodology, limitations and organization of chapters.

Chapter II focuses on the reviews from the relevant literature in this field carried out by various researchers.

Chapter III presents the overview on investors’ behaviour and investors' level of awareness on various financial literacy programmes initialised by the RBI and other agencies.

Chapter IV deals with the household savings and investments in India and draws a brief discussion on the growth of household savings in the country from the year 2001 to 2010.

Chapter V deals with the financial services awareness level and investment pattern of the rural masses, and testing of hypotheses that have been already framed with the help of appropriate statistical tools. Results have been arrived at in a suitable manner.

Chapter VI summarizes the findings, suggestions and conclusion of the study.
References


8. Mid Term Review of the Policy (2005-06), RBI.


