A STUDY OF FINANCIAL INCLUSION IN BANGALORE DISTRICT

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Abstract: *Financial inclusion has been accorded due priority by successive Governments and by the Reserve Bank of India ever since independence. The Directive Principles of State Policy in the Indian Constitution beckon the government to accord due priority to both equal distribution of wealth and balanced regional development of the country. Two waves of bank nationalization were undertaken that witnessed government control of major banks in India thereby aligning the goals of the banks with the social objectives of the government.Consequently, many government development programs were brought in by different governments like IRDP, PMRY, MNREGA and such others – to augment the process of alleviating the lot of the downtrodden and underprivileged sections of the society. The Indian Prime Minister Shri Narendra Modi has coined a new mantra i.e. JAM – Jan DhanYojana (PMJDY), Aadhar card and Mobile technology. Under the PMJDY scheme, 13.8 crore zero balance accounts were opened which was recorded in the Guinness Book of Records. Though significant progress has been made in widening the reach and spread of the banking system to reduce financial exclusion, still nearly 42% of the population is outside the ambit of organized banking.*

There are very few studies done on financial inclusion in the state of Karnataka. Most studies have been thematic like role of microfinance or self-help groups in alleviating inclusion that too done at the national or global level. Customized or area specific studies are few and far between. This study tries to understand the status of financial inclusion in two specific districts – Bangalore Urban and Bangalore Rural.

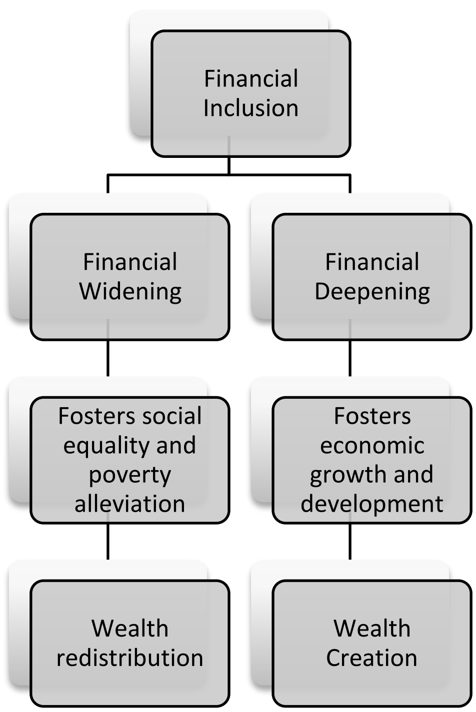
Keywords: *Financial Inclusion, PMJDY, Jan Dhan, Aadhar based identification, Mobile Technology.*

INTRODUCTION TO FINANCIAL INCLUSION

According to the Planning Commission (2009), *financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.*

GOI (2008) defines Financial inclusion 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.*

From the above two definitions emerge the two facets of financial inclusion as identified by the Asian Development Bank. Broadly, the two facets are financial widening and financial deepening. Financial widening involves of bank accounts by the hitherto unbanked sections of the society. On the other hand, financial deepening means more and more usage of banking, insurance and equity products by existing account holders belonging to the underprivileged sections of the society.



Importance of Financial Inclusion

- Financial Inclusion (FI) enables financial deepening in the economy by harnessing idle cash balances in the remote rural/semi-urban areas of the country and pumping more funds into the banking system of the country.
- Through the mechanism of providing easy and timely access to bank credit and financial innovation, it is possible to reduce inequality in the society by providing a level playing ground to all sections of the society. Thereby, poverty would be reduced.

- Systematic risk is the macro level risk that exists in the economy and is common to all sectors/industries. This risk gets exacerbated if there is a divide in the economy in terms of financial inclusion or exclusion. Any such divide will make the economy heterogeneous. However, financial inclusion makes the economy homogenous thereby mitigating the systemic risk that the economy will encounter.
- Financial inclusion ushers in a matured financial system augmenting faster economic growth. More the funds that are at the disposal of the banking system, a more than proportionate impact would be felt on investment through the process of credit creation by the commercial banks.
- A matured economy is one where any movement towards instability is random and not systematic in nature. When systematic risks are effectively plugged in an economy, it augurs well for the overall stability of the economy. Financial inclusion brings all stakeholders into the mainstream of economic activity that ensures elimination of unstable forces.

ANATOMY OF FINANCIAL EXCLUSION

- Firstly, the sheer physical inaccessibility of a bank branch or an ATM facility results in several people residing in remote rural areas from not availing basic banking services. This may be termed as **Distance Exclusion**.
- Secondly, banks always assess the risk prospects of undertaking a financial transaction whether it is deposit or loan. Many underprivileged persons do not have adequate collateral or a credit history to go through this risk assessment filter. Hence, they remain outside the banking mainstream which may be termed as **Risk Exclusion**.
- Thirdly, banking/financial products entail certain conditions to be fulfilled before the offer of the product is made to the customer. These conditions may range from KYC norms, employment identity card, permanent address proof, PAN card or such others. Many weaker sections of the society cannot fulfill these requirements. This may be termed as **Terms and Conditions Exclusion**.
- Fourthly, banking products and services are offered with a price tag which may be unaffordable to certain classes of the society. This is especially so with regard to advisory

services. Persons who remain outside the purview of banking on account of price may be deemed to be under the bracket of **Affordability Exclusion.**

- Fifthly, banks and finance companies actively market their products that contain plenty of educative information. Reading the marketing information makes the target customers literate about these products. However, the economically weaker populace does not constitute the target groups and hence remain unaware of these products. This type of exclusion is termed **Marketing Exclusion.**
- Lastly, owing to the sophistication of the finance world coupled with personal inadequacies several people choose the path of **Self Exclusion.**

LITERATURE REVIEW

Nachiket Mor Committee (2014) concluded that the main thrust of the RBI constituted committee was to look at financial inclusion in the context of urban areas, where unlike a rural set up, most of the infrastructure and players needed to bridge the demand and supply gap are already present.

Kale, S. (2013) in his paper opines that once Financial Inclusion Plan is fully implemented covering all the unbanked villages and a UID number is issued to all the villagers, a 'model' will emerge where the customer will have the option to transact with the bank of their choice in any village by using UID enabled Micro ATMs.

Jainuddin, S. M., Hiremath, G. M., Patil, S. S., &Chawan, R. (2015) highlight that the commercial banks issued highest KCCs (45.33%) followed by co-operative banks (40.30%) and minimum issued by RRBs (14.37%). The similar pattern was observed for Karnataka state and Bellary district.

OluwatayoI. B. (2014) feels that mobile technology is very vital for remote service area delivery of financial services and products.

Shalu Chopra; Rajeev Dwivedi; Arun Mohan, S. (2013)opine that technology has a major role to play in not only financial inclusion but inclusive growth of the excluded.

Kumbhar, V. (2011) Indian banking scenario shows that there is need of m-banking for financial inclusion of poor and urban people. Since last five years mobile telephone service extended tremendously in India and it provides golden opportunities to extend m-banking service in India.

STATEMENT OF THE PROBLEM

Significant progress has been made in widening the reach and spread of the banking system to reduce financial exclusion.However, much remains to be accomplished as nearly 42% of the population is still outside the ambit of organized banking.Under the PMJDY, 13.8 crore accounts were opened of which 8 crore accounts are zero balance accounts. According to Bill and Milinda Gates Foundation, only 18% of beneficiaries have received the RuPay card.According to the Department of Financial Services (DFS), only 38.2% of bank branches and 14.58% of ATMs are located in rural areas. According to DFS, only 4% of BSBDA accounts have availed OD facility. According to CRISIL Inclusix score, 1 in 3 Indians still do not have savings bank account and just 1 in 7 has access to credit. (June 2015)

OBJECTIVES OF THE STUDY

- To understand the savings and banking habits of economically weaker sections
- To know about the financial awareness of the customers, their perception of various initiatives undertaken, their expectations from the banking system
- To understand the role of technology in enhancing Financial Inclusion
- To understand the impact and benefits of FI on the life of customers and the problems they encounter.

RESEARCH METHODOLOGY

The research is a Descriptive research. Both Primary and Secondary Data have been used for the purpose of research. The areas of study chosen are Bangalore Urban and Bangalore Rural Districts. There are four taluks in each of the two districts under study. Bangalore North, Bangalore South, Bangalore East and Anekal are in Bangalore Urban District (BUD). In the

Bangalore Rural District (BRD) are included the taluks of Doddaballapura, Nelamangala, Hoskote and Devanahalli. All 4 taluks of each district were chosen for the study.Two structured interview schedules - for respondents from the 8 taluks in the 2 districts and nodal agencies like Banks and Government. The target respondents include households in rural and urban districts of Bangalore who are:

a. Persons with an annual household of less than 1.2 lakhs per year(as per GOI definition of EWS)
b. Persons availing government benefits through low cost housing
c. People who do not have bank accounts

SOURCES OF SECONDARY DATA:

Annual reports and website of RBI, Department of Financial Inclusion, Government of India, Finance Lab website, Centre for Financial Inclusion, and others. Secondary data was collected from the Annual reports and websites of RBI, Department of Financial Inclusion, Government of India, Finance Lab website, Centre for Financial Inclusion, CRISIL Inclusix report and such others.

FINDINGS

1) **Income-Expenditure Pattern:**80.8% of the respondents fall in the monthly income bracket of between Rs. 5000 to Rs.12000. 80.5% people have a monthly expenditure ranging from Rs. 4,000 to Rs. 12,000. Most of the expenditure was found to be for regular sustenance. 76.5% of the respondents were found to save less than Rs. 1000 per month. 67.5% of the sample saves on a monthly basis. 60.6% of the respondents expressed that they could not save regularly due to insufficient income.
2) **Methods of savings:**Among the different preferred methods of saving, the respondents preferred saving in the bank or keeping cash at home.Nearly 72% said that they opened the account for saving money and said that it was for financial safety. Savings account was the most widely used facility followed by usage of ATM counters and debit card facilities.

3) **Reasons for savings:**Earning interest income was the last on the list of priorities.Almost 92% people stated that they do not wish to open a bank account for the sake of only receiving government payments.
4) **Frequency of savings:**The frequency of usage of bank services was rather low with 38.5% of the surveyed sample make between 3-5 banking transactions per month and 27.5% people make 1-2 banking transactions per month.
5) **Reasons for opening Bank account:** Respondents opine that security of conducting a financial transaction is a big use of having a bank account. They also feel that access to bank facilities will increase their potential to save. (Should it come before this place?)
6) **Borrowings from Banks:**68.8% of the respondents have borrowed money and only 9.8% have borrowed from formal sources like banks.
7) **Reasons for not borrowing from Banks:**Lack of collateral and non-repayment of earlier loanswere cited the biggest reasons for not borrowing from the banks.Informal sources were preferred because of local availability, cash in emergency and amount as per requirement.
8) **Help in opening bank accounts:**32.3% opined that their neighbors helped in the process while 32.5% contend that the village panchayat officials played a vital role.
9) **Reasons for not opening a Bank account:** 79% of the surveyed populace stated that they have their own personal difficulties in not opening an account. Reasons for this vary between illiteracy, inability to sign and disorientation to opening an account.
10) **Proximity to banks:**The presence of a Bank in some form or the other was found in 90% of the surveyed area. 84% of the surveyed population opines that there are ATM counters prevalent in their zones while 16% confirm that there are no ATMs that are accessible to them.Around 52.1% respondents state that the distance to the nearest bank is below 5 kilometers while 45.8% state that the distance is between 5 to 10 kilometers.
11) **Customer Expectations:** Customers expect banks to provide them housing loans, education loans, consumption loans, have helping attitude to illiterate customers and impart banking literacy. Low interest rates on deposits, high interest rates on loans, unhelpful attitude of the bank staff, requirement of collateral security and non-availability of banking correspondents were the main problems encountered by customers.
12) **Financial Awareness:** Knowledge about insurance, mutual funds and investments about shares was negligible. Only 50% of the respondents were aware of insurance and 30% of the

respondents did not have insurance because they found it more expensive. 4% of the respondents had micro insurance. 99.8% don't have shares or investments in mutual funds. There is very low awareness of no frills account and PMJDY. 71% of the respondents say that banks have not conducted any literacy camp and 73% state that no bank official visited their house.

13) **Perception of existing Services:**ATM, internet and mobile banking are the highest ranked in customer perception. PMJDY, KCC and no frills account lowly perceived. 95% people have mobile phones while 50% have computer and internet connectivity. The respondents opined that they liked to use technology for bank operations as usage of technology made bank operations easier. The respondents cited that they experienced many technological challenges like frequent power cuts and dysfunctional gadgets.Also, online services like online banking and online purchases were not very common.
14) **Perceptions of Nodal Agencies:**Lack of computer penetration in rural areas was the most important factor for financial exclusion followed by backwardness in educational standards. The respondents feel that the cash transfer scheme and good use of media like TV were very important. Lack of purchasing power among the people was cited as the most important constraint in offering financial products. For recording credit history of the customers, they feel that relying on Aadhar card was the best method.

CONCLUSIONS

a) Income-Expenditure ratio leaves little scope for savings. Banks need to do innovation on financial products to tap this potential. There is a very high degree of trust and security in availing bank products. Banks need to tap this trust factor while simultaneously addressing the credit and insurance needs of the poor. Dependence on informal sources of borrowing is widely prevalent amongst the underprivileged that can be milked as an opportunity by the banks.
b) Banks need to take a relook at both the deposit and credit preconditions that is hampering access of the poor to the banking system. Norms like KYC, collateral security, credit history, and loan default surely must not be ignored but can be viewed in a new light to suit the local

requirements of the populace. Fixing responsibility on joint liability groups is an option worth exploring.

c) High penetration of mobile telephony (95%) as compared to internet and computers (50%) needs to be effectively utilized.

d) Financial literacy campaigns are of importance.This is demonstrated by the low awareness of PMJDY, No frills accounts, Insurance products and KCC.

e) SEBI also needs to increase awareness of mutual funds and share markets.

SUGGESTIONS

a) Responsibility for financial inclusion must not be restricted to only Banks and the government but include several stakeholders like ROC, ICAI, Income Tax Department, RBI, SEBI and such others.

b) Informal nature of business is a big problem amongst the urban self-employed people. These people do not have business registration, income tax returns or real-time book-keeping. This makes them ineligible for bank credit.

c) Proper FI indices must be evolved to map the progress. The existing horizontal and vertical indices do not reflect the ground reality. For example, an RBI constituted survey in Bangalore urban district finds credit to GDDP (Gross district domestic product) ratio to be 146%. However, share of Micro and SME sectors are 64% and 82% only. Further, only 5% of micro industries avail term loans from the banks while only 1% of them get working capital advances. (Jana Census 2014).

d) An area specific approach is desirable as corporate houses in Bangalore have a mandatory CSR obligation which can be effectively harnessed under the PPP (Public private partnership) model pioneered by Bangalore citizenry.

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