

ASSESSING ROLE OF BANKING SECTOR IN FINANCIAL INCLUSION PROCESS IN KRISHNA DISTRICT: ANDHRA PRADESH

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***Abstract:** The financial sector reforms in India have been playing a significant progress for the development of economy since the liberalization, privatization and globalization of Indian economy. As per RBI working paper series (2011) on the Index on Financial Inclusion (IFI) is based on three variables namely number of adults having bank account (penetration), number of banking branches per 1,000 populations and outstanding credit and deposit, the states Kerala, Maharashtra and Karnataka have achieved high financial inclusion while Tamil Nadu, Punjab, Andhra Pradesh, Himachal Pradesh, Sikkim and Haryana are identified as a group of medium financial inclusion and remaining 20 states fall under low-financial inclusion. Based on the above observations, this study investigates further status of financial inclusion, role of banking sector and to examine the bankers' approach towards financial inclusion in Krishna District, Andhra Pradesh.*

***Key words:** Financial Inclusion, Banking services, No-frills accounts, Kissan Credit Card, General Purpose Credit Card*

I. INTRODUCTION

Financial inclusion was initiated from 19th century onwards. In India, Co-operative momentum took place in 1904. Particularly, financial inclusion improved a great deal during 1960-1990. According to 59th round of All India Debt and Investment Survey of the NSSOs (National Sample Survey Office) highlights, extension of credit facility from non-institutional sources increased sharply in 2002 in comparison with 1991. Later, the Reserve Bank of India (RBI) in its mid-term review of monetary policy 2005 06 urged all the banks to give priority for financial inclusion as one of the prime goals.

“Financial Inclusion helps to get right product at price, protection, place and profit. Financial Products are to meet the needs of rural people. As a result, the weaker sections of the people can escape from the clutches of money lenders” (*Shri Raghuram Rajan, 2014*). “The share of formal banks and corporate societies increased from 29% to 37%, whereas the share of money lenders decreased from 44% to 33%. This survey was conducted by NSSO as a part of employment and un-employment survey conducted in 2004-10” (*S. Chandra Sekhar, 2014*).

Financial inclusion helps to move cash from people to bank accounts and it can be monitored. Recently, financial action task force guidance (2011) says financial inclusion is to ensure measuring Anti-Money Laundering and Terrorist financing. Financial inclusion is also to assess effectiveness of anti-money-laundering and combating financing of terrorism (AML/CFT).

The new branch policy of RBI encourages banks to open branches in unbanked and unreached areas for expansion of financial inclusion. The success of policy efforts depends on sound financial markets in the country as described by *World Bank (2010)*. The global financial crisis was prevalent in 2009 throughout the world. The main reason is the decrease in the ratio of deposit value to GDP and value of loans to GDP.

In this context, the RBI dictates financial inclusion as a national policy and to adapt all commercial banks for sustainable growth of an economy. The main reasons for financial exclusions are illiteracy, poor performance of bankers, apathy and negative approaches of banks (*RBI, 2005*).

II. OBJECTIVES OF THE STUDY

The research aims to cover the following objectives which are empirical in nature:

- To find out the reasons for poor practice of banking in the rural areas
- To evaluate the role of banks and their approach towards financial inclusion
- To analyze measures for improving financial inclusion in unbanked areas
- To know the measures are improving the efficiency and expansion of banking sector
- To give appropriate suggestions for improving the efficiency and effective services offered by the banker

III. METHODOLOGY

The various aspects studied from the respondents' knowledge regarding financial inclusion are respondents' perception regarding the effectiveness of financial inclusion in Krishna districts, respondents' opinion regarding most of the important attributes, respondents' opinion with regard to various aspects related to financial inclusion and influencing factors for financial exclusion. The research tools are also used in the study.

The study also used secondary data collected from the records and reports from the officers of the banks and personal interviews of bankers. Some information is also collected from the books and periodicals. The data published by dailies and addressing notes by top level banking authorities have also been used for this study. Further information has been collected by visiting the websites and RBI bulletins.

The data collected from different sources and the analysis using statistical techniques is used for meaningful and accurate conclusion to know the status, reasons

and awareness of financial inclusion in Krishna District, Andhra Pradesh. The implication is that banker has to focus on expansion of banking services and reduce exclusion.

Sample unit: The total number of the bank branches is 688 as per information available from various banks by the end of March, 2014 in Krishna district, Andhra Pradesh. Out of total population the sample size is 25 bankers were approached with regard to various aspects related to financial inclusion.

RESPONSE RATE: Table: 01 empirical information highlights bankers' opinion on financial inclusion in Krishna District, Andhra Pradesh. The information includes type of bank, work experience, position in bank hierarchy, educational qualification, banking and financial services, and other factors influencing expansion of financial services towards rural people. The total number of banks approached was 29. Out of these, 25 from public, one from private and 3 from co-operative sector banks i.e., 86.2%, 3.5% and 10.3% respectively.

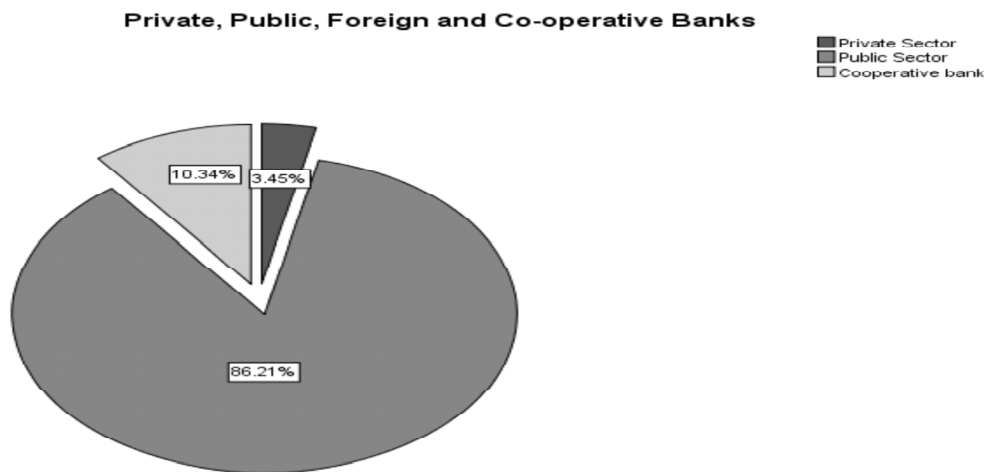


Figure 1: Type of Bank

Most of the bank managers have experience between 6 and 10 years with graduation. Out of 29 respondents, 23 bankers i.e., 79.3% are opined that banking and financial services should be offered to rural people whereas 17.2% of bankers opined that those financial services are vital.

It is observed from the analysis that the following are the reasons for poor practice of banking services in rural areas (poor products & Services, lack of awareness, poor advertisement, lack of consistency, poor co-operation, poor network connectivity and other services). A percentage of 41.4 agreed with the statement, 24.1 percent disagreed and 27.6 percent neutral.

Table 1
Profile of the Study Respondents (Bankers) in Krishna District: Andhra Pradesh

Sl. No.	Q. No.	Characteristics	Number Respondents	Percentage-%
1.	Q2.	Type of Bank:		
		Private Sector Bank	01	3.4
		Public Sector Bank	25	86.2
		Foreign Sector Bank	00	00.0
		Co-operative Bank	03	10.3
		Total	29	100
2.	Q3.	Work Experience		
		Below 5 years	01	3.4
		6-10 years	25	86.2
		11-15 years	00	00.0
		16 and above	03	10.3
		Total	29	100
3.	Q4.	Position in Bank Hierarchy		
		Branch Manager	20	69.0
		Head of the Department	3	10.3
		Accounts officer	4	13.8
		Others	2	6.9
		Total	29	100
4.	Q5.	Educational Qualification of the banker		
		Degree	20	69.0
		Post Graduate	9	31.0
		Total	29	100
5.	Q.6.	Banking and financial services are offering to rural people		
		Vital	5	17.2
		Essential	23	79.3
		Desirable	1	3.4
		Can't say exactly	0	0.0
		Total	29	100

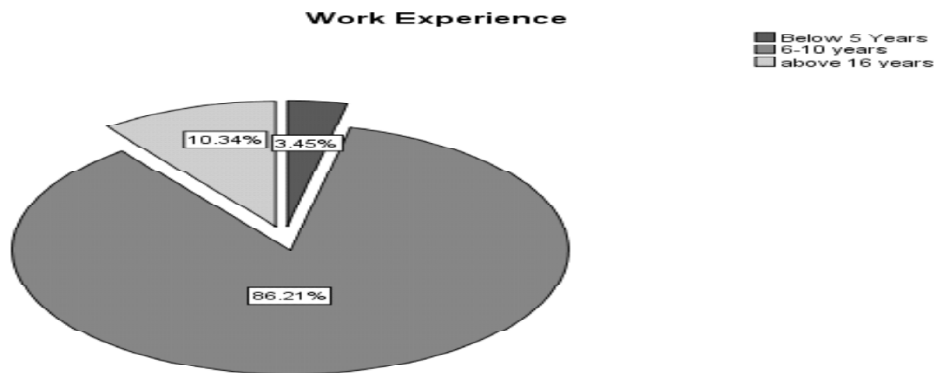


Figure 2: Banker Work Experience

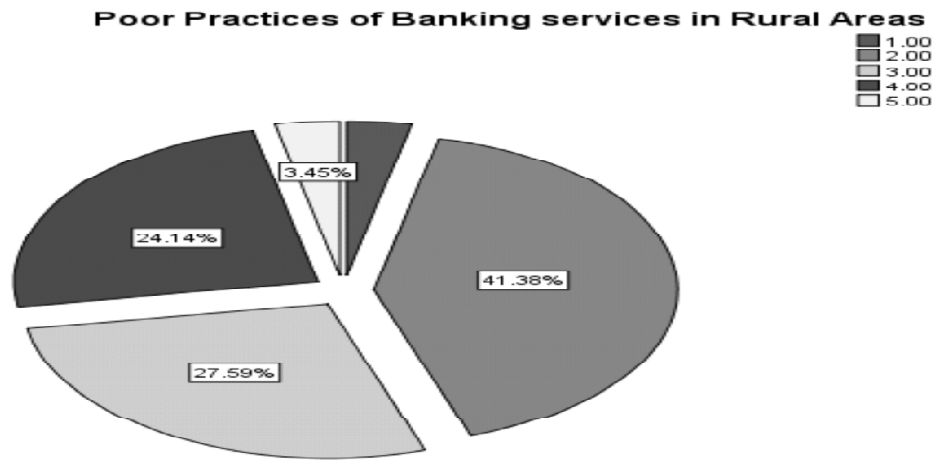


Figure 3: Poor practice of banking services in the rural areas

Factors supporting the importance of banking services in rural areas (expansion of branches, to empower women, provide loans to rural people at affordable cost, to create financial awareness, to create opportunities for increasing their return etc.) Most of the respondents 58.6% i.e., 17 bankers agreed with the statement and 34.5% of respondents strongly agreed as expansion of branches are very important for providing financial service at affordable cost.

About the measures for improving financial inclusion in unbanked areas (Mobile banking services, technology up gradation, opening Ultra-small branches, liberal KYC norms) majority of 19 bankers (65.5%) agree with the statement, whereas 24.1% of respondents remain neutral.

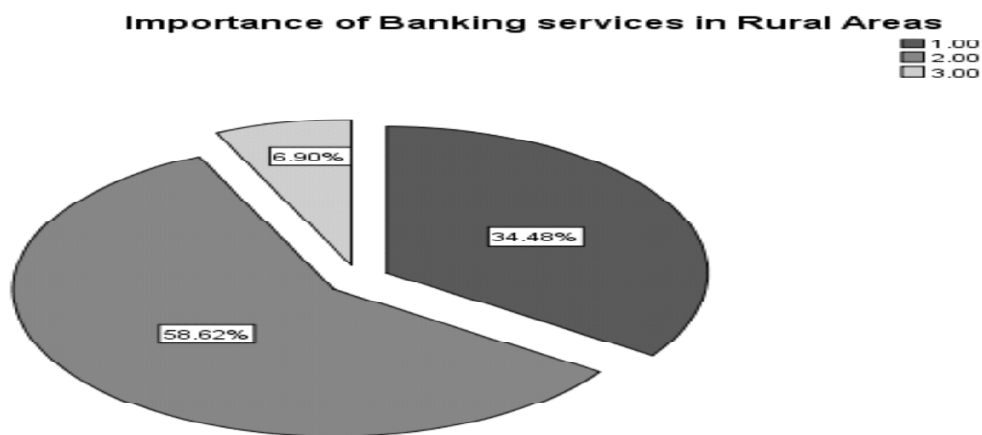


Figure 4: Importance of Banking services in Rural Areas

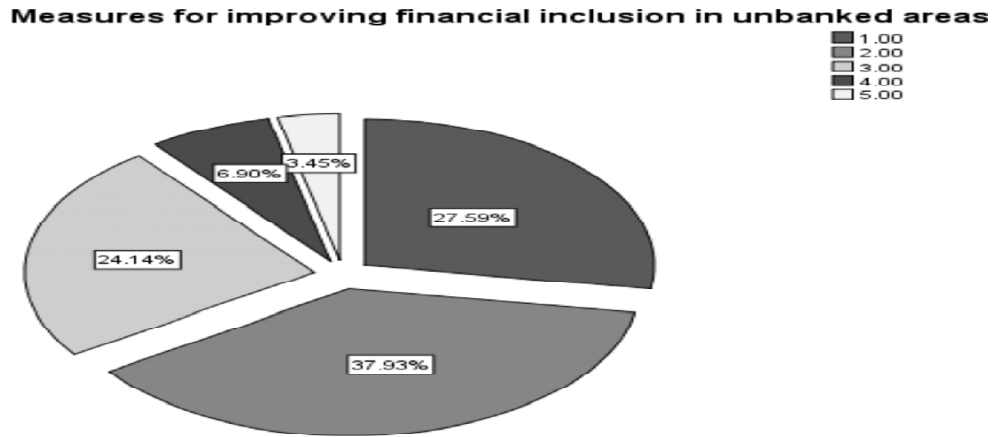


Figure 5: Improving financial inclusion in unbanked areas

For improving efficiency and expansion of banking sector (through No-frills accounts, GPCC and KCC, opening of special agricultural branches, promoting MFI, SHGs and NGOs, role of BCs) in rural areas, 4 respondents strongly agreed, 15 respondents agreed i.e., 13.8% and 51.7% respectively, whereas 20.7 percent bankers disagreed.

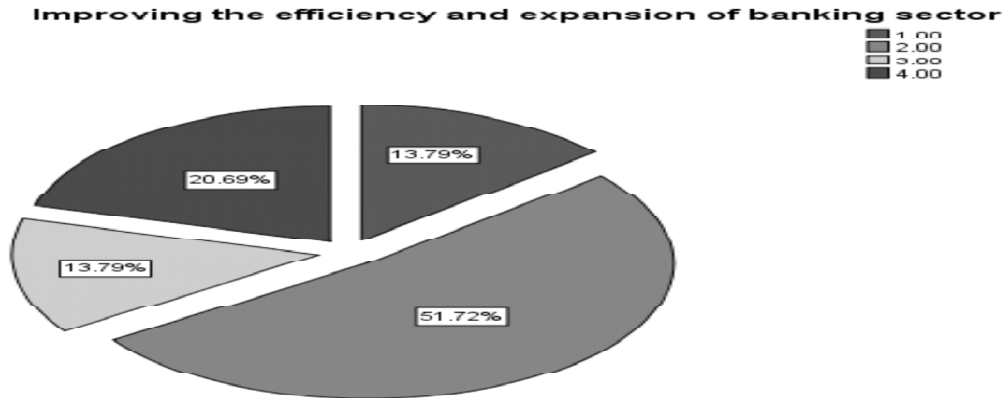


Figure 6: Measures are improving the efficiency and expansion of banking sector

Suggestions to improve banking habits and awareness on financial services offered by banks (popularization of banking products/ services; improving safety and security; creation of awareness; government initiative; involvement of NGOs, SHGs, BCs; encouraging co-operative system among SHGs, MFI and NGOs) 21 respondents are agreed with the statement, whereas remaining 8 bankers are neutral.

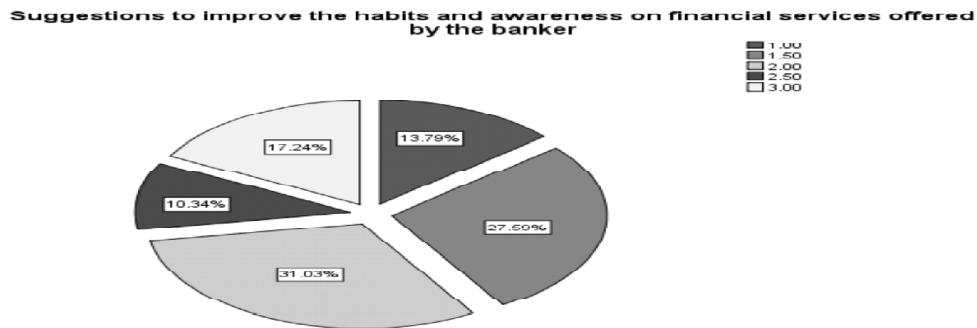


Figure 7: Suggestions to improve banking habits and awareness on financial services offered by banks

Finally, it is also found that factors influence rural people for loans towards informal borrowings are (no positive response by the banker, no co-operation from the banker, services from the bankers are poor, lack of uniformity between literate and illiterate, and no transparency for financial transaction). For this, 15 respondents (51.7 percent) disagreed that means the above factors do not influence rural people taking loans from informal borrowers, whereas 14 respondents (48.3 percent) agreed with the statement.

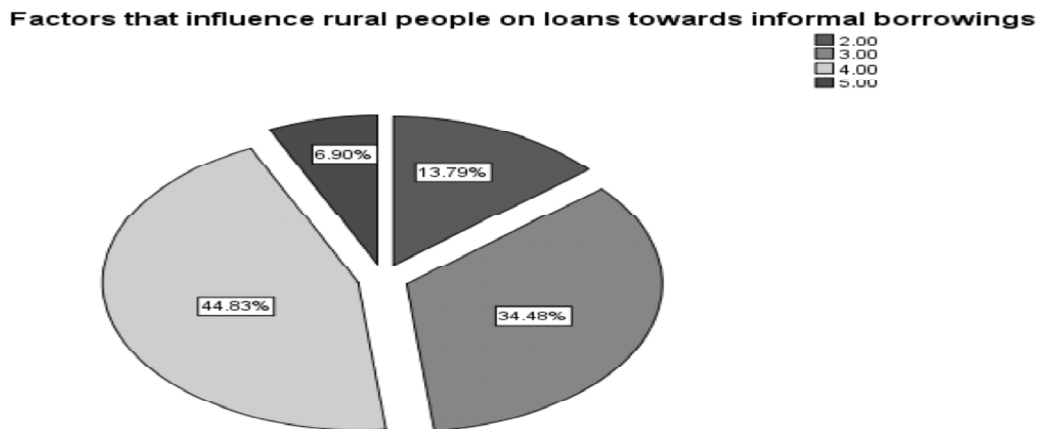


Figure 8: Factors are influencing to obtain loans from Informal borrowings

Table: 02 specifies that the average value of variables Q9, Q10, Q11 and Q12 is in between 1.7241 and 2.4138, whereas for Q10 variable the standard deviation is 1.04810. It connotes that the remaining variables have stability over other variables. The Q9, Q11 and Q12 variables are 0.59140, 0.98261, and 0.64566 respectively.

Table 2
Descriptive Statistics on Mean and Standard Deviation

<i>Particulars</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>Number</i>
Q9	1.7241	.59140	29
Q10	2.2069	1.04810	29
Q11	2.4138	.98261	29
Q12	1.9483	.64566	29

Table 03 shows that the correlation coefficient for Q9, Q10, Q11 and Q12 variables are positively correlated. The significance level is small i.e., 0.000. It is less than 0.01. Hence, the correlation is significant at 1% level of significance and the four variables are linearly related.

Table 3
Correlation Analyses Between The Variables

<i>Factors</i>	<i>Particulars</i>	<i>Q9</i>	<i>Q10</i>	<i>Q11</i>	<i>Q12</i>
Q9	Pearson Correlation	1			
	Sig. (2-tailed)	—			
	Number	29			
Q10	Pearson Correlation	.441*	1		
	Sig. (2-tailed)	.017	—		
	Number	29	29		
Q11	Pearson Correlation	.388*	.573**	1	
	Sig. (2-tailed)	.038	.001	—	
	Number	29	29	29	
Q12	Pearson Correlation	.569**	.623**	.823**	1
	Sig. (2-tailed)	.001	.000	.000	—
	Number	29	29	29	29

** - Correlation is significant at the 0.05 level (1-tailed)

* - Correlation is significant at the 0.01 (1-tailed)

Result from the table shows the relationship between Q9 and other variables (Q10, Q11 and Q12). It means other variables of relationship with Q10 are 44 percent, Q11 is 38.8 and Q12 correlated with Q9 is 56.9 percent. This analysis highlights that there is a strong relationship between Q9 and Q12 with the significant level of 0.001. It is clear from the table that the expansion of branches results in improving banking habits and awareness of financial services.

It also presents, from the table, the relationship among Q10, Q11, and Q12. It is a clear indication there is a strong relationship between Q10 and Q12. It is 62.3% with significant levels of 0.000 whereas the correlation between Q10 and Q11 is 82.3% and the significant levels are 0.000. It is therefore, the variables are correlated with last variable that means importance is given to banking services, improving financial inclusion in unbanked areas, improving the efficiency and expansions of banking sector in rural areas, lead to improvement in banking habits and awareness of financial services offered by banks.

Generally, the correlation coefficient, r , is a positive number if one variable tends to increase as other variable increases; r is negative if one variable decreased as other variable increased; and if r is nearly zero, there is no relation between changes in two or more variable. Hence, there is a non-linear relation between two variable patterns of increase and decrease i.e., reverse relationship between variables.

Opening of No-frills accounts: No-frills account, 'nil' or very low minimum balance requirement. As per the direction of the Reserve Bank, no-frills accounts have been started from 2005 onwards. As on June 2011, 7.91 crore no-frills accounts have been opened by banks with an outstanding balance of Rs.5, 944.93 crore, whereas 4.93 crores accounts and an amount of Rs.4, 257.07 crores in March, 2010. "Through 'no-frills' account, social security payment and also wage payment of Mahatma Gandhi National Rural Employment Guarantee Programme Accounts (MGNREGPA) can be routed. It can also reduce transaction cost" says *D. Ramesh and S. Pachialakshmi, (2014)*. In India, 35 percent of people had formal accounts against the global average of 50 percent and the average of developing economies of 41 percent.

The Prime Minister of India Shri Narendra Modi will launch the 'Financial Inclusion Mission' on Independence Day. The main objective is to ensure that every household in India has access to banking services such as savings accounts, credit, remittances, insurance and pension. Under this scheme, Basic Savings Bank Deposit account was introduced instead of no-frills account and as on 16th August, 2014 in rural Krishna District total BSBD Accounts are 1, 40,000. By the end of September, 2014 total deposits outstanding was Rs.22, 297.02 crores; and loans and advances was Rs.24, 554.74 crores disbursed.

Table 4
Non-parametric Chi-square Analysis

Q.8	What are the reasons for poor practice of banking in the rural areas?	Chi-Square	df	Asymp. Sig.
i.	Poor availability of products and services in rural areas	15.655 ^a	4	0.004
ii.	Lack of awareness on modus operandi	26.000 ^a	4	0.000
iii.	Poor advertisement on the services available in villages	14.621 ^a	4	0.006
iv.	Lack of consistency in transactions because they are daily wage earners	10.828 ^a	4	0.029
v.	Poor co-operation from banking staff due to limited staff in rural branches	4.621 ^a	4	0.328
vi.	Poor network connectivity	8.069 ^a	4	0.089
vii.	Other services will not be offered due to lack of safety	6.690 ^a	4	0.153
a.	0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 5.8.			

Q.9 Indicate your level of agreement on the importance of the banking services		Chi-Square	df	Asymp. Sig.
i.	To uplift the rural economic empowerment through expansion of branches	17.034 ^a	2	0.000
ii.	To empower women for utilization of banking services	11.862 ^a	2	0.003
iii.	Provide loans to rural people to meet their financial needs	12.483 ^a	2	0.002
iv.	To bridge the gap between the demand and supply of money in time at affordable cost	24.931 ^b	3	0.000
v.	To create wealth and improving their status	10.207 ^a	2	0.006
vi.	To create financial awareness and build up their saving capacity	10.310 ^b	3	0.016
vii.	To create opportunities for increasing their return and reducing losses	2.552 ^a	2	0.279
viii.	To provide funds to farming sector at affordable cost for the development economy	13.345 ^b	3	0.004
ix.	Overall economic development through banking services	7.276 ^b	3	0.064
a.	0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 9.7.			
b.	0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 7.3.			
Q.10 What are the measures for improving financial inclusion in unbanked areas?		Chi-Square	df	Asymp. Sig.
i.	Mobile banking services for rural people aim at pushing financial inclusion	5.655 ^a	4	0.226
ii.	Technology up gradation like ATM, Internet banking, and Telebanking etc.	13.241 ^a	4	0.010
iii.	Ultra-small branches i.e, to open the branches less than 2,000 population in un banked villages to ensure that reducing financial exclusion even in unbanked villages.	8.759 ^a	4	0.067
iv.	KYC norm helps for promoting financial inclusion.	6.000 ^a	4	0.199
v.	Expansion of branches in unbanked areas	15.552 ^b	3	0.001
a.	0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 5.8.			
b.	0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 7.3.			
Q.11 Why do you think the following measures are improving the efficiency and expansion of banking sector?		Chi-Square	df	Asymp. Sig.
i.	Through no-frill accounts expansion of financial services in rural areas towards excluded people in rural areas.	3.586 ^a	4	0.465
ii.	General Purpose Credit Card and KISSAN Credit Card to meet financial needs of the farmers and land less labourers.	22.724 ^b	3	0.000
iii.	Special agricultural branch have been opened by public sector banks to meet their financial needs.	2.034 ^b	3	0.565
iv.	An intermediary such as MFI, SHGs and NGOs helps expansion financial services.	6.690 ^a	4	0.153
v.	The role of business correspondents provides services to wards the customer for expansion business and financial services.	9.793 ^a	4	0.044
a.	0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 5.8.			
b.	0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 7.3.			

Q.12 Express your level of approval to the following suggestions to improve the banking habits and awareness on financial services offered by the banks?		Chi-Square	df	Asymp. Sig.
i.	Popularization of banking products and services	16.828 ^a	2	0.000
ii.	Improving the safety, security and strict vigilance for controlling of frauds by the banker	24.931 ^b	3	0.000
iii.	Creation of awareness on banking services by banker in rural public	9.172 ^a	2	0.010
iv.	Government initiative towards banking institutions for expansion of banking in un banked areas	5.345 ^b	3	0.148
v.	Involvement of NGOs, SHGs, BC leads to financial inclusion	2.862 ^b	3	0.413
vi.	Encouraging co-operative system among SHGs and Micro Financial Institutions and NGOs	4.966 ^c	4	0.291

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 9.7.

b. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 7.3.

c. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 5.8.

Table 4 gives information on non-parametric Chi-square analysis of reasons for poor practice of banking in rural areas, they are the importance of banking services, measures for improving financial inclusion in unbanked areas, measures for improving efficiency and expansion of banking sector, suggestions to improve banking habits and awareness on financial services offered by banks. The value of the chi-square statistical analysis (26.000, 24.931, 15.552, 22.724), and the p value is given in variables line of the output. In this analysis, the 'p' value is 0.000. The expected frequency is less than 5% and it has been satisfied.

These analysis highlights obtain higher values of chi-square are need of systematic approach, expansion of branches in unbanked rural areas, KCC and GPCC are needed for small farmers to meet their need and improving the financial services in rural areas.

IV. SUGGESTIONS AND CONCLUSION

Traditional and conventional banking solutions may not be the answer to address the problem of financial inclusion in India. Bank has to take initiative for solutions to overcome the problems which are related to financial exclusion in India. They need to deploy new technology, introduction of new models for reducing the costs of customers and providing great services in an effective manner. They should think that in short term it may be the social responsibility but in long run it is business opportunity.

Banking sector have to announce new schemes, new products and providing funds in an easiest way to the borrower. And banking sector has to create awareness to the members of bank customers about optimum utilization of funds as well financial and non-financial services offered by the banker.

In order to get 100% financial inclusion, the banker should improve financial inclusion in unbanked areas, and improving efficiency and expansion of branches in rural areas leads to improve the banking habits and awareness.

KCCs have innovative credit delivery mechanism to meet the production requirements of farmers. At the time of fixation of credit, not only the size of land but also production cost and link-up with crop insurance by the banker should be considered. For successful implementation of SHGBLP, bankers and government should start various programmes and take initiative for achieving their plans and controlling overdues in respective mandals.

Technology should be leveraged to increase delivery channels at lower cost, ensure better internal control system and management information system; thus enhancing the efficiency, safety and integrity of the payment and remittances system. A well-functioning payments system itself improves economic activity.

Based on the study, it can be concluded that India is at moderate level regarding financial inclusion when compared to the developed countries. In view of ATMs, branches, credit and outstanding deposits, the RBI has adopted various models and strategies such as BCs model, no-frills account, simplified KYC Norms etc., are essential to strengthen financial inclusion. To cope up with the challenges to expand financial services, there is a need for viable and sustainable approaches; business models for affordable products, process for efficient handling of transactions, and appropriate regulatory work and risk management policies to ensure financial inclusion.

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