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CHALLENGES TO FINANCIAL INCLUSION IN RURAL TAMIL NADU – A STUDY

(Developing Financial Inclusion Model with Ability's Approach)

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Abstract

Global financial institutions and International organisations are constantly encourage the developing nations to take efforts for financial inclusion. The first world countries thrive progressively due to ensure comprehensive inclusive financing among their populations. Since renowned economic scientists and global experts have established significant evidence over the relationship between financial inclusion and economic empowerment, the developing countries like India are working hard to strategically implement financial inclusion for national growth and the well-being of its people. Despite all the staggering initiatives, the outcome of the financial inclusion is not commendable, particularly among rural topography. Therefore, this research paper attempts to study the challenges of financial inclusion in rural Tamil Nadu and to develop a financial inclusion model based on ability's approach. The primary data of the study was collected through convenient sampling method in the rural areas of Salem district whereas journals and website sources constitute secondary data. The outcome of this research work will help the Government of India as well as the Reserve Bank of India in their policy-making and effective planning to augment greater financial inclusion in the nation.

Key Words: Financial Inclusion, Rural, National Growth, Ability's Approach

Introduction

The Global Forum on Development 2015 focused on how access to financing can contribute to inclusive social and economic development; the Organization for Economic Co-operation and Development (OECD) Center and the United Nations

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Capital Development Fund (UNCDF) developed a series of documental work exploring the basic issues and dimensions of financial inclusion. Eventually, the World Bank (WB) and International Monetary Fund (IMF) also came up with prescribed guidelines to resolve the issue of financial inclusion. Being a developing nation must essentially abide by the regulations which lead to financially inclusive growth and development of the nation.

Financial inclusion process is not new to Indian as this notion and concept persisted in their preliminary economic planning and policies. However, the magnitude of inclusive financing activities has been highly triggered with advanced strategic actions. The nationalization of banks is the foremost financial inclusion initiative in India followed by the contemporary policies and programmes such as Pradhan Mantri Jan Dhan Yojana (Zero Balance Account), Pradhan Mantri Jeevan Jyoti Bima Yojana (Life Insurance), Pradhan Mantri Suraksha Bima Yojana (Accident Insurance), Atal Pension Yojana (Pension Scheme), Direct Benefit Transfer for Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and the Welfare Schemes and PAHAL Scheme (Direct Benefit Transfer to LPG Customers) of the Government of India to achieve comprehensive financial inclusion in India.

The Reserve Bank of India, an autonomous body which regulates the Indian financial System introduced significant measures in favour of financial inclusion namely Basic or 'No-Frills' Accounts with Relaxed Know Your Customer (KYC) Norms, Self-Help Groups (SHGs) & Micro Finance Institutions (MFIs) – Bank Linkage Programme, Business Correspondents or Facilitators Model, Payment Banking System, General Credit Card (GCC) and Kisan Credit Card (KCC) and Financial Literacy Centres. Regardless of all these financial inclusion policies and programmes, the level of financial inclusion achieved so far in India is unsatisfactory especially with the rural populations. The rural people to be financial included as they struggle with several difficulties. This research paper reveals various factors contributing to the challenges to financial inclusion in rural Tamil Nadu and contributes a working financial inclusion model based on ability's approach.

Financial inclusion - Definitions

The Financial inclusion may be defined as the process of ensuring access to financial services and adequate credit always when needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost. Financial Inclusion refers to the 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. In general understanding, the financial inclusion is a process to ensure the people to travel with the formal financial system of their country to contribute towards the economic development and social enrichment.

Challenges in achieving Financial Inclusion in rural Tamil Nadu

India is majorly populated by rural communities. The balanced regional growth should be consistently implemented at all the levels to achieve complete growth and development in the country. Economic development cannot be enhanced by neglecting the productivity and efficiency of the rural India. Therefore, the rural population should be served with equal importance in par with the urban clusters for the holistic enhancement of both economic and social development. The procedural implementation of financial inclusion is observed to be insufficient for the rural people to be financially included. The factors contributing to the challenges to financial inclusion in rural India are explained as follows:

Accessibility

The most important feature of financial inclusion is ensuring access to the formal financial products and services. However, the access to banks and financial institutions is not easy for the rural people. It is difficult to see banks and automatic teller machines (ATMs) in remote villages and approaching business facilitators or business correspondents are inaccessible. Nowadays, the banking industry mainly deals with revolutionary technological inventions to deliver break free financial services but in parallel, the rural communities experience poor technological access and limited access to information and financial literacy.

Availability

Opening a bank account includes several procedures which is difficult for the rural people. In addition, availing loans from banks is hard, because of the strenuous rules and regulations. Currently, banks provide numerous value-added services in addition to the traditional practice of accepting deposits and lending loans. However, those services exist with varied inbuilt complexities. Direct benefit transfer (DBT) system is popular in India notably towards government subsidies but the common complaint of rural people with this DBT is that it is not timely. Therefore, the availability of financial services with banks must be tailor-made to serve the needs of rural people.

Suitability

The existing financial products does not suitable for rural condition and lifestyle. Rural people are not equipped enough to use ATM services, bank credits, online payment services and other value-added services. The rural people believe that the existing formal financial products do not cater to their needs. Hence, suitability is one of the major challenges to financial inclusion.

Comfortability

Positive perception and satisfaction of customers are highly necessary for any service sector industry to prevail successfully. The comfortability factor plays a vital role in delivering services to people. Banking services are expected to provide a comfortable experience to attract the customers. But in the rural scenario, the banking services such as ATMs, mobile and internet banking application and infrastructural experience is observed to be uncomfortable. Therefore, the lack of comforts and friendly banking causes great challenges to financial inclusion among rural communities.

Profitability: The heartbeat of financial activities is profit and people generally never prefer unprofitable deals or even nominal profits. The formal financial products are perceived as a costly affair by rural people. The transactional and operational cost of banking services are regarded high by rural people. The unimpressive rate of returns on deposits and the unaffordable interest on borrowings makes the rural people believe that the banking products are not profitable thus causing a challenge to financial inclusion in rural India.

Literature Review

Shabna Mol TP (2014) carried out a research work to contribute a conceptual understanding of financial inclusion in the Indian context. The researcher found that the lack of awareness about financial literacy, limited access to financial services and the cost of banking transactions are acts as major challenges to financial inclusion in India. Shyni.V.K and D.Mavoothu (2014) explored about achieving inclusive growth through financial inclusion in India. The researcher concluded that by making the unbanked financially included, the country can achieve inclusive growth at a greater level. The findings of the study also emphasised that financial inclusion is a good business opportunity for the formal financial institutions. Solomon Olajide Fadun (2014) examined financial inclusion as a tool for poverty alleviation in developing countries, with special reference to Nigeria. The study revealed that many women are unbanked in Nigeria and rural people less than the age of 45 years with no formal education are financially excluded. The research work concluded that the continuous efforts of financial inclusion may help the unbanked population to be financially included.

Noelia Camara and David Tuesta (2015) studied the factors that matter for financial inclusion in Peru. The outcome of the research work proved that the socio-demographic factors of an individual play a prominent role in financial inclusion. The researchers explained that women living in rural areas earn low income and have less education experience hardship to be financially included. Prabhakar Nandru, Byram Anand and Satyanarayana Rentala (2015) explored the factors that directly affect the usage of banking services in Pondicherry region. The researchers concluded that purpose of opening a bank account, convenience, ease of using banking products and physical accessibility of bank branch are the significant underlying factors which play a vital role towards the usage of banking services. The results of the research work also revealed that people show more interest towards educational loans and mortgage loans which is highly convenient to avail.

Rationale of the Study:

Many research works have already contributed in the field of financial inclusion both nationally and internationally. However, very few research works have attempted to include rural geography. This research paper is unique and significant as it concentrates on the challenges to financial inclusion in rural Tamil Nadu. This study helps to identify the factors affecting rural population to be financially included in Tamil Nadu. Moreover, this research work highlights a newly developed financial inclusion model based on ability's approach.

Objectives of the Study:

1. To study the socio-demographic profile of the rural population in Tamil Nadu.
2. To identify the challenges faced by people to be financially included in rural Tamil Nadu.
3. To develop Financial Inclusion Model (FIM) with ability's based approach.

   Hypothesis of the Study:

1. H_0 - There is no significant relationship between the challenges faced by people to be financially included.

Research Methodology:

The research work is empirical in nature. To study the challenges of financial inclusion in rural Tamil Nadu, an Interview Schedule has been designed with objective type questions, dichotomous questions and 5 point Likert's scale questions. The primary data was procured through the formulated interview schedule in rural Salem district which was ranked as the lowest financially included rural district in Tamil Nadu as per the 2011 Census of India. Since the rural population of the Salem district is 17,07,934 with 517 villages and 9 districts, it is impractical to apply random sampling technique. So, the convenient sampling was used to collect data from 200 samples covering the 9 sub-districts namely Attur, Edappadi, Gangavalli, Mettur, Omalur, Salem, Sankari, Vazhapadi and Yercaud. Journals and web sources constitute the secondary data.

Limitations of the Study:

1. The sample for the study is confined to Salem district only. Hence the findings cannot be treated as representative of the entire Tamil Nadu state.
2. The Convenient sampling method and the limited sample of 200 respondents have limited the findings of the study.

Data Analysis and Interpretations

The data analysis is processed with the help of Statistical Package for Social Science research (SPSS - 15th Version) software and Analysis of Moment Structures (AMOS – 20th Version) software. The reliability of the data per Cronbach's Alpha is 90.30% (0.903) for 25 items. To achieve the objectives of the study statistical techniques such as simple percentage analysis, one sample t-test, Bivariate Correlation test, cluster analysis and Structural Equation Model (SEM) were used and the results are presented below.

Socio-Demographic Profile of the respondents:

Understanding the socio-demographic profile of the population is essential for the financial inclusion process and planning. To study the challenges to financial inclusion in rural Tamil Nadu, the researcher attempts to understand the socio-demographic profile of the respondents. Therefore, the below frequency distribution table reveals the influential demographic factors of research participants.

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From the below table, it is inferred that majority of the respondents constituting 45.50% (91) belong to the age group of up to 20 years and 62.50% (125) respondents are male. It is further inferred that 43.00% (86) of the respondents are undergraduates and 55.50% (111) are married. 27.00% (54) of the research participants work in private sector and respondents comprising 42.50% (85) possess a monthly income less than 5,000 rupees only. Hence, this frequency distribution reveals that the average population of the sample is male youngsters who are married hold an undergraduate degree. Also, majority of them work in private organisations and earn very low incomes.

Table: 4
Socio - Demographic

Socio-Demographic Factors	Classification	Frequency	Percent
Age	*Up to 20 years*	*91*	*45.50%*
	21-30 years	41	20.50%
	31-40 years	31	15.50%
	41-50 years	25	12.50%
	Above 50 years	12	6.00%
Gender	*Male*	*125*	*62.50%*
	Female	75	37.50%
Educational Qualification	Illiterate	21	10.50%
	Primary/Middle	13	6.50%
	SSLC/Higher Secondary	45	22.50%
	Diploma Holder	7	3.50%
	Under Graduate	*86*	*43.00%*
	Post Graduate	23	11.50%
	Professional	5	2.50%
Marital Status	Single	89	44.50%
	Married	*111*	*55.50%*
Occupation	Farmer	43	21.50%
	MNREGA Worker	14	7.00%
	Labour	41	20.50%
	Domestic Worker	9	4.50%
	Private Employee	*54*	*27.00%*
	Government Employee	19	9.50%
	Entrepreneur/Professional	20	10.00%
Monthly Income	*Less than Rs.5000*	*85*	*42.50%*
	Rs.5,001 to 10,000	45	22.50%
	Rs.10, 001 to 15,000	25	12.50%
	Rs.15,001 to 20,000	15	7.50%
	Rs.20,001 to 25,000	15	7.50%
	Rs.25,001 & above	15	7.50%

Source: Primary Data

Ranking of Various Challenges to Financial Inclusion in Rural Tamil Nadu:

The parametric t-test helps to analyse the significance of variables considered for the study. One sample t-test assists with better analysis by revealing, mean value, standard deviation, standard error mean by processing the variables considered for the study. Challenges faced by rural respondents are scientifically ranked by utilising one sample t-test and the results are presented in the below table.

One-Sample Statistics								
Challenges of Financial Inclusion	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**	**t**	**df**	**Sig.**	**Rank**
Profitability	200	3.9860	.72390	.05119	19.263	199	.000*	**1**
Accessibility	200	3.9280	.87536	.06190	14.993	199	.000*	**2**
Availability	200	3.9240	.70791	.05006	18.459	199	.000*	**3**
Comfortability	200	3.8500	.84491	.05974	14.227	199	.000*	**4**
Suitability	200	3.8300	.79084	.05592	14.842	199	.000*	**5**

Source: Computed Data

***5% Level of Significance**

From the above table, it is inferred that the t-value of all the five factors namely Accessibility, Availability, Suitability, Comfortability and Profitability are statistically significant at 5% level and the t-values are positive with consistent standard deviation ranging from .707 to .875. The mean value ranging from 3.83 to 3.98 reveals that the respondents face challenges to achieve financial inclusion in rural Tamil Nadu. In addition, a ranking was done by considering the mean value of the factors and identified that the lack of profitability which ranks one, is the major challenge to achieve financial inclusion in rural Tamil Nadu followed by the other four factors.

The Relationship among the factors of Financial Inclusion Challenges in Rural Tamil Nadu:

H_0 - There is no significant relationship between the challenges faced by people to be financially included.

A Correlation test was conducted to identify the intra-relationship among the factors pertaining to the financial inclusion challenges in rural Tamil Nadu. Five factors viz, accessibility, availability, suitability, comfortability and profitability were considered for the correlation test. The results of the test are presented in the below table.

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From the below table, it is inferred that the all the factors considered for the test as statistically significant with each other at 5% level and the values of the factors are less than 0.05. Moreover, the Pearson's correlation values of the considered factors were ranging from 0.528 to 0.586, which shows that the relationships among the factors are more than 50% and with an average of 56%. Hence, the null hypothesis is rejected. And, it is concluded that there is significant a relationship among the challenges to financial inclusion in rural Tamil Nadu.

Intra Correlations Matrix

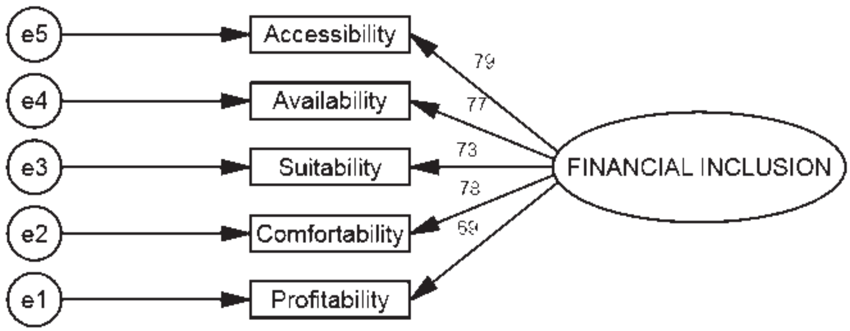
Intra - Correlations Matrix						
CHALLENGES TO FINANCIAL INCLUSION		Accessibility	**Availability**	**Suitability**	**Comfortability**	**Profitability**
Accessibility	Pearson Correlation	1	.629**	.575**	.602**	.538**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	200	200	200	200	200
Availability	Pearson Correlation	.629**	1	.517**	.609**	.529**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	200	200	200	200	200
Suitability	Pearson Correlation	.575**	.517**	1	.599**	.532**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	200	200	200	200	200
Comfortability	Pearson Correlation	.602**	.609**	.599**	1	.514**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	200	200	200	200	200
Profitability	Pearson Correlation	.538**	.529**	.532**	.514**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	200	200	200	200	200

****. Correlation is significant at the 0.01 level (2-tailed).**
Source: Computed Data

Developing Financial Inclusion Model based on Ability's Approach:

Based on the national and international literature on financial inclusion, the researcher has identified five factors namely Accessibility, Availability, Suitability, Comfortability and Profitability. Since all these selected factors have a basic commonality of ability, therefore, this developed model by the researcher is named "Financial Inclusion Model based on Ability's Approach". Through which, the researcher intends to prove that financial inclusion is not an independent phenomenon but depends on underlying factors. Therefore, the Structural Equation Model (SEM) is applied to prove the financial inclusion is a conglomeration of all the factors.

Figure: 1 FINANCIAL INCLUSION MODEL (FIM) – ABILITY'S APPROACH



Source: Computed Data

The application of structural equation model explains a good fit which can be scientifically proved through the following model fit summary. From the above figure, it is inferred that Accessibility has a factor loading of 0.79 followed by Availability 0.77, Suitability 0.73, Comfortability 0.78 and Profitability 0.63. These values prove that all the considered factors have a high factor loading which possesses greater significance towards financial inclusion.

Model Fit Summary:

The below tables of CMIN, RMR, GFI, Baseline Comparisons and RMSEA helps to explain the values of Good Model Fit Summary.

Table: 9
Summary of Model Fit Indices

Goodness of Fit Indices	Value
CMIN	5.455
CMIN/DF	1.091
P-Value	0.363
Root Mean Square Error of Approximation (RMSEA)	0.021
Goodness of Fit Index (GFI)	0.990
Comparative Fit Index (CFI)	0.999
PCLOSE	0.618

Source: Computed Data

From the above table, the model fit indices values such as CMIN (Chi-square) = 5.455; CMIN/DF = 1.091; P=0.363; GFI (Goodness of fit index) = 0.990; CFI (Comparative fit Index) = 0.999; RMSEA (Root mean square error of approximation) = 0.021 and PCLOSE = 0.619 are all follows the benchmark values. Therefore, as per the Financial Inclusion model developed through ability's approach, it is concluded that the financial inclusion in rural Tamil Nadu predominantly depends upon Accessibility, Availability, Suitability, Comfortability and Profitability.

Research Findings:

1. The socio-demographic profile revealed that majority of the respondents constituting 45.50% (91) belong to the age group of up to 20 years and 62.50% (125) respondents are male. 43.00% (86) of the respondents are undergraduates and 55.50% (111) are married. 27.00% (54) of the research participants work in private sector and respondents comprising 42.50% (85) possess a monthly income less than 5,000 rupees.

2. The ranking was done by considering the mean value of the factors namely Accessibility, Availability, Suitability, Comfortability and Profitability. Therefore, it is identified that the lack of profitability which ranks number one, is the major challenge to achieve financial inclusion in rural Tamil Nadu.

3. There is a significant relationship between the challenges to financial inclusion in rural Tamil Nadu.

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4. As per the Financial Inclusion model developed through ability's approach, it is proved that the financial inclusion in rural Tamil Nadu predominantly depends upon the five factors such as Accessibility, Availability, Suitability, Comfortability and Profitability.

Conclusion

A developing nation like Indian cannot achieve comprehensive financial inclusion without serving the needs of the rural population who are spread across its topography. Rural population can be financially included only with the provision of proper access to formal financial products and services. Banks must make the financial products easily available to the people to facilitate better inclusion. The various products of the Indian financial system are expected to be suitable for the rural people. Comfortability is a significant factor which directly affects people to be financially included. The informal and unorganised financial services are more profitable which pose a huge competition to the formal financial system. Therefore, the Government of India and the Reserve Bank of India should create strategic planning through a scientific approach to financially include rural Tamil Nadu to improve their standard of living and enhance national development.

Suggestions and Managerial Implications

Primarily, the Indian banking industry and financial institutions should understand the demographic profile of the rural population to make them participate in the formal financial system. From the results of this research paper, it is vivid that the demographic profile has a significant influence towards the financial inclusion challenges. The research study exposed that Accessibility, Availability, Suitability, Comfortability and Profitability are the major factors causing greater challenges to financial inclusion in Tamil Nadu. Hence, necessary steps should be taken to protect the same. Accessibility can be ensured through constructing banks and financial institutions at within appropriate geographical distances. Installing Automatic Teller Machines (ATMs) near residential areas and providing technological access to help the rural people to avail e-banking services may assist the rural communities to be financially included.

Availability can be established through easy account opening process, flexible loan procedures, providing tailor-made services and by reducing the complexity of value-added services at banks. Suitability of the financial services can be substantiated by catering to the exact needs of the rural population and their lifestyle. Comfortability can be provided through comfortable infrastructure, user-friendly services and by making the banks approachable at financial emergency and crisis. Profitability of the financial services is a predominant factor to be analysed in the financial sector, the banking industry and financial institutions should provide profitable financial products and services for the rural population to expedite financially inclusion.

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