Dwindling Levels of Financial Inclusion: An Exploratory Study in Lucknow, India

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Abstract
The access to basic financial services for disadvantaged groups is regarded as a prerequisite for reducing poverty and catalyzing the engines of economic development. Hence, financial inclusion becomes very important. Though the government and RBI have taken several steps to improve the supply side of financial inclusion, these measures will not work without adequate demand for financial inclusion. The demand for financial inclusion means the need and use of the same from the people in terms of the need to open a savings account or the need to avail the credit facilities from the formal financial channel available. The only way to keep up with the economic growth is to ensure that the capital formation is always on track. This capital will be generated only when the savings of the large masses will be mobilized. Since Accessibility is the most influential factor of the demand for financial inclusion the RBI should take some measures that will make financial services more accessible to those who are financially excluded. The people should be made aware of the available facilities and its related advantages to make use of our financial system for their betterment and also for the nation’s betterment. This paper intends to explore into financial access which plays a pivotal role in understanding the progress of financial inclusion. The research highlights that there are various reasons for low level of access which needs to be taken care of to achieve better and faster growth with respect to financial inclusion. Each reason needs to be catered to the possible extent so as to ensure that the overall demand is generated which will provide an added incentive to increase the supply as well. Hence, the efforts of the government and RBI to improve the supply of financial services will end up fruitless if the demand side of financial inclusion is not taken proper care of.

Keywords: Financial Inclusion, Financial Access, Financial Exclusion, RBI

Introduction
Nearly more than half of the world’s population coming from developing and emerging economies does not have a formal mechanism to save. They don’t have an access to a bank account. Further; a sizeable chunk of the same population live on less than $2 per day (World Bank Report 2008) implies a clear link between poverty and access to a formal banking mechanism. Most studies dedicated to financial inclusion have suggested that people need to be motivated to save and save it via formal banking route and they reiterate a vital fact that most savings by the poor people still is mobilized using informal sources. The fact remains such mobilization finally never reaches the wiser hands of the government and administrative machinery and ultimately fails to streamline the economic development process. The number of financial instruments available for usage in emerging economies is plenty, but just having a bank branch does not merely leads to its usage or access.

Access to financial services refers to the ease with which an individual uses the financial services if at all the need arises. It is completely different from the term ‘usage’ of financial services since a mere access to financial services doesn’t amount to usage. A mere usage of the financial services also does not connote in any sense of imagination that the hindrances to access are inexistent. It is definitely seen in various pockets of rural areas that people use the varied services with a lot of cost involved in it – implicit as well as explicit.

Savings accounts are the most commonly used vehicle for poor people to channelize their hard earned money for productive investments. But still savings account are out of access for majority of poor people for reasons such as the cost factor, stringent documentation processes, distance factors of the banking branches, lack of income and so on. It is evident that people save for a variety of reasons and they make loans for different reasons as well. A close inspection would help policy makers to devise policies to fine tune their banking mechanism and their banking processes as well as banking products.

Literature Review:
Rangarajan Committee (2008) defined financial inclusion as the process of getting an access to financial services and timely and adequate credit at an affordable price when needed by weaker sections of the society.

Leysbhan and Thrift (1995) underpinned financial exclusion as phenomenon that resulted from such processes that prevented specific groups from getting an access to formal financial system. Sinclair (2001) further supported the above saying that financial exclusion results from the inability to get an access to financial services.
Again, Financial Exclusion could be the result of supply side inefficiencies or it could come from the demand side altogether. It could be due to reasons such as high costs, distance factor, economic conditions and so on.

Carbo et al. (2005) in his work related financial exclusion with the access dimension and stated that is the sheer inability of some groups to get an access to the formal financial system.

Beck, Demirguc -Kunt & Martinez Peria (2007), Honohan (2007), and CGAP (2009) in similar studies pointed out that word bank has been very active in attempting to gauge the relevant parameters having an impact on the access to the financial services in developing countries. Further, they attempted to deduce a relationship between access to financial services and financial system development and economic development. It was found that savings play a crucial role determining the investment level in economy and is directly linked to growth.

Aportela (1999) measured the result of increasing the access dimension on the net saving made by the low income segment. It was concluded that once low income people have an access to a formal savings route, they churn up even higher volume of savings.

Beck, Buyukkarabacak, Rioja & Valev (2008) on similar lines highlighted the influence of access to a saving mechanism helps to increase the net savings as well.

Beck, Demirguc-Kunt and Martinez Peria (2006), studied various barriers to banking access in one of the most exhaustive studies conducted ever and came out with various reasons for non-access to instrumental financial services such as deposit and credits.

Honohan and King (2009) carried out a cross country analysis where they pooled data from various African nations and analyzed reasons and impacts of financial access. The initial results suggested that financial access is greater in urban areas and is higher among males and educated people. They further created a framework for determining the level of financial access based on surveyed results across demographic profile.

**Research Objectives:**

a) To determine the access of a banking product among males and females  
b) To determine the reasons for non-access of a banking product  
c) To determine other parameters shaping up the access to a financial product.

**Research Methodology:**
The research study is a mix of exploratory and descriptive research design. The sample size is 300 and consists of respondents from specific blocks of Lucknow namely Sarojini Nagar, Mohanlalganj, Mallihabad and Bakshi ka Talab. Respondents have an equal participation from males and females and there is an equal participation from each of the blocks. The sampling technique is a mix of judgmental sampling and simple random sampling. Data is collected from the respondents using a structured schedule as a data collection instrument. Data is entered in MS Excel and relevant tools are applied to arrive at necessary conclusions.

**Results And Discussions:**

Table 1 indicates various sources of income for respondents. It is deduced that most of the respondents surveyed practice agriculture and allied activities. Further, some of them are local traders and small businessmen or shopkeepers. Very few have regular jobs or are involved in permanent services.

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>9%</td>
</tr>
<tr>
<td>Dependents</td>
<td>15%</td>
</tr>
<tr>
<td>Regular Jobs/ Service</td>
<td>10%</td>
</tr>
<tr>
<td>Trade, Small business</td>
<td>24%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>33%</td>
</tr>
</tbody>
</table>
Table 2 provides the information on the access of a banking product. The results indicate that less than half of the respondents surveyed have an access to a formal banking product. One fourth of the respondents lack access to a formal banking channel and the remaining 32% are unbanked indicating the scope for further expansion of client base.

Table 3 provides a breakup of the above analysis. It reveals that most of the formally banked respondents are male. On the other hand, most females prefer to have an access to an informal banking product/association. Further, majority of the unbanked respondents are females showing a skewed distribution of formal and informal access among males and females.

Table 4 indicates that most of the banking accounts are new and recent highlighting the work and initiatives taken on part of financial inclusion. It also shows that less than one fifth of the respondents have an account more than five years old revealing lack of banking habit and trust some years back.
Table 4: Duration of Banking

<table>
<thead>
<tr>
<th>Duration</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>32%</td>
</tr>
<tr>
<td>1-3 years</td>
<td>25%</td>
</tr>
<tr>
<td>3-5 years</td>
<td>24%</td>
</tr>
<tr>
<td>Greater than 5 years</td>
<td>19%</td>
</tr>
</tbody>
</table>

Table 5 indicates various reasons for savings having an impact on the financial access and ultimately the volume of business transactions. The data pinpoints that most save for agriculture related activities and other businesses. Only few save it keeping in mind the future education and marriage of their children.

Table 5: Reasons for Savings

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Household Purposes</td>
<td>17%</td>
</tr>
<tr>
<td>Education/Health</td>
<td>8%</td>
</tr>
<tr>
<td>Business</td>
<td>28%</td>
</tr>
<tr>
<td>Marriage Purposes</td>
<td>12%</td>
</tr>
</tbody>
</table>

Table 6 reveals types of banking channels being mostly used at the places surveyed. It is clearly seen that banking is mostly done at bank branches. This may be partly due to the lack of awareness or for the lack of habit while using any other banking channel. However, it is also evident that ATMs have been slowly but surely making their place felt in most of the business transactions.

Table 6: Types of Banking Interfaces at use

<table>
<thead>
<tr>
<th>Interface</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobiles</td>
<td>0%</td>
</tr>
<tr>
<td>POS</td>
<td>3%</td>
</tr>
<tr>
<td>ATM</td>
<td>32%</td>
</tr>
<tr>
<td>Bank Branches</td>
<td>65%</td>
</tr>
</tbody>
</table>

Table 7 indicates that there is not a lot of banking transaction at places surveyed since one third of the respondents do not use banks even once in a month. Only one fifth seem to use it actively for their businesses or personal uses.
Table 7: Banking Frequency

Table 8 points out that there are various reasons accounting for non-access to a banking product. One of the reasons is the lack of income which makes it difficult for the people to save and deposit for investment purposes. Other reasons included the distance travelled to reach the place of banking and the cost of managing a bank account. The cost of managing a bank account was the opportunity cost in terms of minimum balance requirement which was supposed to be maintained at all times in a bank account.

Table 8: Reasons for Non-Usage/Access

Conclusion:
The research clearly reveals that financial access varies across gender. Further, supply side measures do not ensure that supply will be met by the demand. Efforts need to focus on speeding up the demand side factors as well. Factors such as lower level of income and distance of the branches and high cost of maintain a bank account need to be looked into with much more prudence and emphasis. Most people still have agriculture as their primary source of income and the informal and unorganized banking still plays a major role to mobilize the savings of rural women. The reasons for savings and banking frequency also reveal that people are not much into banking practices or banking habits. Further the lack of awareness also leads to underuse of financial interfaces and financial services.

References:


