Research Paper Economics

Impact of Bank Led Financial Inclusion Model on the Socio Economic Status of Saral Saving Account Holders

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ABSTRACT

Inclusive growth is a matter of concern to develop Indian economy by encompassing all sections of people in the growth process. Financial inclusion is the major tool used to include poor and marginalized people into the mainstream economy. Inclusive financial system helps the deprived section of people to get access to formal credit, saving products and other services which help them to overcome poverty and to reduce income inequality existing in the Indian economy.

In India, multi model approach to financial inclusion was adopted. Among all these approaches, bank led inclusive process in prominent. Government of India and Reserve Bank of India is making efforts in co-ordination to reach the unreached section of people through the expansion of banking services. Motivated commercial banks, including RRBs and co-operatives are very active to stretch their services even in remote nook and corners of the country. In this study, through the primary data collected in Hunsur taluk, Mysore district, an attempt is made to evaluate the economic and general impact of financial inclusion. The results show positive impact of financial inclusion on saral saving account holders.

Keywords : Inclusive growth, financial inclusion, Commercial banks, Saral saving account

Introduction

Bank Finance plays a vital role in economic development. There is reciprocal influence between financial inclusion and economic growth. Financial inclusion acts as catalyst for reducing poverty and income inequalities. Though Indian economy is developing at a faster rate by adopting liberalized economic policy, the fruits of development do not reach all people equally. Relative poverty and inequality is in fact increasing with growth.

Inclusive growth is much needed requirement to share the very benefits of economic growth more or less equally among all sections of people. Social and economic justice can be provided only with inclusion of hither to exclude deprived section of people into the mainstream economy. Financial exclusion is one of the main hurdles for inclusive growth. Financial inclusion has gained momentum as solution to exclusion, because financial empowerment leads to social and economic empowerment.

In India, multi model approach to financial inclusion was adopted. Since Nationalization of commercial banks, RBI initiated various reformative measures to reach unbanked weaker, disadvantaged sections and lagging sectors in unreached areas. Banks occupy the pride of place in any financial system by virtue of the significant role they play in spurring economic growth (RBI 2012). The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvement in all the areas relating financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of population epically under privileged sections of society into the fold of basic banking services (Leeladhar 2005).In order to achieve 100 percent financial inclusion both fiscal and monetary measures have been combined to fetch good results by both Government of India and Reserve Bank of India.

Prudent steps for Financial Inclusion

In India the process started in 1967 when “Social Control of Banks” was introduced. Nationalization of commercial banks in 1969 enforced various banks regulations, priority sector lending, differential rate of interest to poor and disadvantaged, interest rate ceilings, subsidized interest rate to priority sectors etc. The Lead Bank Scheme in 1970, establishment of RRB’s in 1975, SHG- Bank linkage program in 1992, issue of kisan credit card scheme in 1998-99.introduction of General credit card in 2005 are some of the major measures in the direction of financial inclusion. Along with these, other measures were taken to increase the bank outreach by encouraging to open brick and mortar branch in rural areas, opening of zero balance saral saving accounts, simplification of know your customer norms, setting up of credit counseling and opening of financial education centers and creation of special funds like Financial Inclusion Fund and Financial Inclusion Technology Fund, encourage to micro finance institutions, introducing technology products and services, deployment of Business correspondents and business facilitators, village adoption scheme, Mobile banking, introduction of electronic benefit transfer are the major steps undertaken. Recently Adhaar enabled payment system, setting up of Pension Fund Regulatory Authority, Swavalamban, Swabhiman were introduced to boost financial inclusion measures.

Current Status

Department of Financial Services-Ministry of Finance, Government of India Statistics reveal that from 2001 to 2011, the total number of households in the country has increased from 191,963,935 to 246,692, 667. Among them the number of households availing banking services has increased from 68,230,642 to 144,814,788. The percentage has risen from 35.5 to 58.7. The number of scheduled commercial bank branches was 8826 in 1969. It has increased to 59762 in 1990 and 1, 02,343 in 2013. Among these branches 37953 were rural, 27219 were Semi urban, 19347 were Urban and 17844 were in Metropolitan branches. In 2013 Average Population per Branch was 12,100. As on 31st March 2013, the total number of A T Ms was 114014. Among these 11564 were located in Rural, 27710 were in Semi Urban, 36111 were in Urban and 38629 were in Metropolitan cities.

Review of literature

Prahlad C.K (2005)emphasized the need to include deprived section of people by saying that 'If we stop thinking the poor as victims or as a burden, and start recognizing them as resilient and creative entrepreneurs and value concisions consumers, a whole world of opportunity will open up'. Implementation of financial inclusion through banks was stressed by the then Finance Minister **PranabMukherjee,** in his Budget Speech 2010-11, that "to reach the benefits of banking services to the 'Aam Aadmi', the Reserve Bank of India had set up a High Level Committee on the Lead bank Scheme. After careful assessment of the recommendations of this Committee, and in further consultation with RBI, it has been decided to provide appropriate Banking facilities to habitations having population in excess of 2000 by March, 2012. It is also proposed to extend insurance and other services to the targeted beneficiaries. These services will be provided using the Business Correspondent and other models with appropriate technology back up. By this arrangement, it is proposed to cover 60,000 habitations". **Chakrabarty K.C**(2011)define Financial inclusion as 'The process of ensuring access to appropriate financial products and services needed by all sections of society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost, in a fair and transparent manner by mainstream institutional players.' Regarding the role of banks in financial inclusion **Sri Animambal Subbarao Pai**, the founder, Canara Bank states "A good bank is not only the financial heart of the community but also has an obligation of helping in every possible manner to improve the economic condition of the common people" **Ranjan and Zingales**(2004) argue that the services provided by the financial sector essentially relocate capital to the highest value use without substantial risk of loss through moral hazard ,adverse selection,or transaction costs- are an essential catalyst of economic growth.

Significance of study

India under liberalization regime records high growth rate. Sustainable increase is recorded in all macro indicators like income, savings, investment, production etc. In the growth process, lot of social and economic exclusion is being observed. This exclusion has resulted in income and social inequalities, low standards of living, low agricultural growth, low quality employment generation, regional disparities, gender inequalities and so on. To unearth the potential lying with the unreached section of people ,and to take all sections of people together in the growth process, 'Inclusive growth' concept gained importance. 11th and 12th plans of India highlighted the need and importance of inclusive growth. Financial inclusion is one of the major tools adopted to achieve inclusive growth. The economy cannot develop on the whole by excluding poor and marginalized people who are the real pillars of the economy. Financial inclusion is significant and relevant to build strong base which leads to social, economic and political empowerment.

In India to achieve financial inclusion, multi model approach was adopted. Banking system plays predominated role in India's financial system. Scheduled commercial banks along with Regional Rural banks and Co- Operative institutions try to implement the policies and programs of both government of India and RBI. The bank led financial inclusion is an effective tool to achieve inclusive growth. The aim of financial inclusion is to bring the unreached section of people into the main stream economy. The present study intends to evaluate the improvement that occurs because of access to formal financial system.

Research gap

Financial inclusion is required to uplift the poor and disadvantaged people by providing them the customized financial products and services. This leads to inclusive growth encompassing the deprived and marginalized sections. Financial Inclusion benefits the economic growth by utilizing unexploited potential of unreached people on one hand and on the other hand they also get benefit by accessing formal financial institutions. This has led to significant improvement in standard of living of deprived people. This study intends to look at the changes occurred in economic and general conditions of the Saral Saving account holders in Hunsur taluk of Mysore district by considering the appropriate variables to test.

Objectives

1. To study the impact of financial inclusion on economic conditions of saral saving account holders.
2. To assess the comparative changes on general conditions of saral saving account holders, before and after financial inclusion.

Methodology

This study is based on primary data. The data was collected from Hunsur taluk in Mysore district. One hundred respondents were contacted to identify the changes in Economic and general condition of respondents after financial inclusion. Random sampling method was adopted. Primary data was collected through Sample Survey method, for which structured questionnaire and interview method was adopted. To find out the changes in Economic condition, the variables like owning of land, livestock, electronic goods, vehicles, tools and equipments were considered to test whether any positive change has occurred. To find out general condition comparative figures were taken about safe drinking water, electricity consumption, toilet facility, telephone and mobile phone usage were taken before and after financial inclusion. The results show a positive change in general and economic condition of respondents after financial inclusion. To test the collective data manual chi –square test and paired t tests were conducted.

The **general observations** of collected data can be summarized as following. Among one hundred saral saving account holders, 36 percent were male and 64 percent were female respondents belonging to different categories. Regarding the education level, 70 percent had only primary education, 21percent had secondary education, 6 percent had pre-university and only one percent had graduation. 95% respondents were depended on agriculture and allied occupations and 3 percent on petty business and 1 percent on seasonal business and private job respectively. With that 95 percent of respondents are daily wage earners. Overall family income of respondents was less than 5000 per month and their average savings ranging from 500 to 1000 per month. Before opening the account nearly 50% of respondent's answered that they keep their meager savings at home and main purpose of savings was to face uncertainties and to some extent to meet future expenses. 91 percent of respondents respond that earlier they had not opened the account because of lack of surplus money and lack of savings. 71 percent of saral saving account holders got the help of bank personnel to open e account and 25 percent through government officials. To open the saral saving account 87 percent of respondents said that it took a fortnight after submission of application form. Regarding the operation of accounts, 80 percent of account holders respond that they operate account once in a month. 90 percent of account holders use the account for both deposit and withdrawal purpose. The minimum balance kept in the account is ranging from Rs.51 to Rs.200 by more than 50% of account holders.

Results

Impact of financial inclusion on economic condition of the account holders:

To find out the changes in Economic condition, the variables like owning of land, livestock, electronic goods, vehicles, tools and equipments were considered .The test is to find whether any positive change has occurred. The answers are as per table-1

The null hypothesis (H0): There are no positive changes in the following indicators after financial inclusion.

The alternative hypothesis (Ha): There are positive changes in the following indicators after financial inclusion.

Table-1

Variables	YES	NO
Owning Of Land	2	98
Live Stock	2	98
Electronic Goods	84	16
Vehicales	70	30
Tools And Equipments	70	30

The obtained Chi Square value is 274.13. The Chi Square critical value is > Chi Square table value, that is 274.13>9.348. The test result shows the rejection of null hypothesis. The difference is considered to be extremely statistically significant. Therefore there are positive changes in economic condition of financially included people.

Impact of financial inclusion on general condition of the account holders:

The null hypothesis (H0): There is no significant change in the selected variables, before and after financial inclusion.

The alternative hypothesis (Ha) There is significant change in the selected variables, before and after financial inclusion.

Table-2 Paired Samples Test

Pairs	Mean	Std error	T value	Df	Sig(2-tailed)
A1-B1	.3200	.0469	6.826	99	.000
A2-B2	.9600	.0197	48.744	99	.000
A3-B3	.5500	.0500	11.000	99	.000
A4-B4	.6100	.0490	12.444	99	.000

As per Table- 2 the paired sample t test was conducted to find out the difference in selected variables, before and after financial inclusion. The selected variables for the study are (i) access to safe drinking water, (ii) electricity consumption, (iii) toilet facility and (iv) use of telephone and/or mobile phone respectively. The average mean value of the above variables, before and after financial inclusion is .3200, .9600, .5500, .6100 respectively and the standard error is .0469, .0197, .0500, and .0490 respectively. Since the result of the analysis indicates that the null hypothesis is rejected at 99 degrees of freedom and hence the alternative hypothesis is statistically significant and that can be accepted. According to this table all the pairs are significant, that means that positive changes have occurred after the financial inclusion.

Conclusion:

Financial inclusion is the benchmark used to assess the degree of reach of formal financial services to common people of the economy. The outreach of various banking products and services like deposit accounts, credit products, micro Insurance, transfer of money, payment of money etc, help the poor to get the facilities like secured savings, unexploited credit, safe transfer of money, getting direct benefits from Government. All these leads to general improvement in the standard of living of hitherto unreached poor and deprived section of people. This brings the poor people who are the real builders of the economy into the mainstream economy.

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