

Available online @ www.iaraindia.com
 SELP Journal of Social Science - A Blind Review & Refereed Quarterly Journal
 ISSN: 0975-9999 (P) 2349-1655 (O)
 Impact Factor: 3.655(CIF), 2.78(IRJIF), 2.77(NAAS)
 Volume XI, Issue 45
 July - September 2020
 Formerly UGC Approved Journal (46622), © Author

FINANCIAL INCLUSION OF THE POOR: A CASE STUDY ON THE ROLE OF BANKS IN DEVELOPMENT OF KARAİKAL REGION, PUDUCHERRY (U.T.)

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Financial inclusion is a key determinant of sustainable and inclusive growth, which in turn is essential for building an equitable society.

-pranab Mukherjee, Ex-president of India.

INTRODUCTION

Meaning of Financial Inclusion of poor:

Financial Inclusion focuses attention on the need to bring previously excluded people under the umbrella of financial institutions. Financial Inclusion is the most useful frame of reference for considering how poverty might be reduced through provision of financial services. The financial service needs of the poor are simple, but their satisfaction can be life enhancing. A broad conception of microfinance embraces deposits, remittance, payments, micro-insurance and pensions, aside from credit. The poor need access to convenient, liquid and safe deposit services which are protected against inflation by positive real rates of interest. With saving in reserve, the poor are able to smooth their consumption expenditures in the face of uncertain income streams. Savings give household a shield against catastrophic events, whether affecting individuals or entire communities. Misfortunes such as illness or bereavement, or destruction due to natural disasters, might otherwise force the vulnerable to divest productive assets, tipping them over the divide between meagre sufficiency and poverty.

Financial exclusion

Financial exclusion is the lack of access by certain customers to appropriate, low cost, fair and safe financial products and services from the main stream providers. The various reasons for financial Exclusion were caused by

physical distance, access exclusion, condition exclusion, price exclusion, marketing exclusion and self exclusion. The research financial inclusion program for bank access to finance, within which attention is paid to financial exclusion of the poorest people and to determining how

access to financial services can be measured by government. Micro finance remains the most potent weapon available for financial exclusion. The pattern of economic growth in India in the recent years has brought in its wake a number of concerns, which include expanding this growth across regions, sectors, and people. The major objective is to ensure inclusive growth by removing the constraints of poor infrastructure, improving economic efficiency and spreading the benefits of growth over a vast population, which has remained outside the purview of this development process. The financial sector in the country has also experienced revolutionary changes but a segment of population has been excluded from the advantages of this revolutionary process. Financial exclusion, which is generally the outcome of poverty, ignorance and environmental factors, is to a great extent related to supply side issues, i.e., lack of appropriate financial products and services to the poor. Hence, for the inclusive growth financial inclusion is the need of the hour.

Challenges and Opportunities:

After adopting multi agency approaches in rural and agricultural credit system. Indian banking has shown tremendous growth in volume and outreach resulting in increase in the total number of branches of banks and reduction of the average population per branch office. There are, however, concerns that banks have still not been able to reach a vast segment of the population and provide them with basic banking services. Growth has also not been uniform across all the regions / States of the country and there still continue to be wide gaps in the availability of banking services in the rural areas. The government of India announcement of implementing financial inclusion in a mission mode along with the big bang launch of the Pradhan Mantri Jan-Dhan Yojana (PMJDY) on August 28, 2014 after the speech of Prime Minister Shri. Narendra Modi deliver this in the

2014 Independence Day Speech produced a lot more focus on an important poverty alleviation measure.

Steps to ensure financial inclusion:

Savings / Deposits

- No frill Bank Accounts
- Branchless banking
- Retirement Savings
- Insurable Contingencies
- Buffer Savings

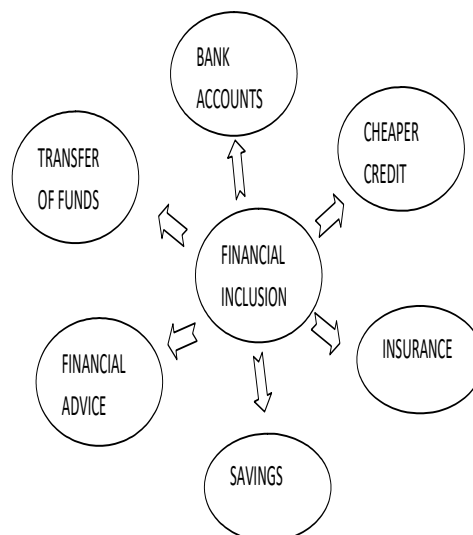
Services

- Digital Banking
- Insurance – health care
- Remittances & Payment services
- Investment plan for child ‘s education
- Financial Pension for old age
- Business correspondence & Self Help group
- Deposit Loan Insurance
- Advisory service

Credit / Loans

- Emergency Loan
- Housing Loan
- Consumption Loan
- Entrepreneurial credit
- Micro finance & micro credit facility
- Business Livelihood
- Mortgage Loan

SERVICES OF FINANCIAL INCLUSION



Statement of the Problem:

The All India Debt and Investment Survey (2012-2013) conducted by the National Sample Survey Organization has pointed out that between 1991 and 2002, the share of institutional finance in the outstanding cash dues of rural households decreased by 7 percentage points to 57 per cent, while share of non-institutional sources showed a corresponding increase. The survey also showed that the non-institutional agencies had advanced credit to 15.5 per cent of rural households, while the institutional agencies had financed only 13.4 per cent households. The All India Debt and Investment survey, (2012-2013) reported that the average amount of debt for a rural household was Rs. 35,522 and urban households Rs. 85,625. The incidence of debt was lowest for ST (16.9 per cent) households and the highest for OBC (35.7 per cent) households. Further, the result of survey showed that non-institutional agencies play a major role in advancing credit to the households particularly, in the rural area. The Government of India, RBI and NABARD took various measures, which includes SHG – Bank linkage programme, redefining the role of Lead banks, capitalization of RRBs, capitalization the weak PACSs, encouraging the banks to open ‘no frills’ accounts, issuing General Credit Cards, Micro Insurance, and providing Financial Education. For this purpose wherever it is possible the support of NGOs, SHGs and other civil society organizations be enlisted.

In this background it is worthwhile to study the role of banks in financial inclusion in Karaikal Region, Puducherry, because the Government of India implemented the pilot project on financial inclusion in Niravy in Karaikal Region. This pilot project had ripple effect and all the banks at present have their own strategies for financial inclusion. In this context some questions need answers. What are the strategies followed by banks

for financial inclusion? What is the effect of these strategies on the socio economic status of the poor in this region? How do the stake holders – clients, employees and administrators – perceive financial inclusion approach of the banks? Hence, the present study entitled ‘Financial inclusion of the Poor – A Study on the Role of Banks in Karaikal Region, Puducherry U.T. was undertaken.

Review of Literature

The literature on Financial Inclusion is quite youngest in India. Here an attempt is made to review the studies available on Financial Inclusion and its impact on the lives of rural people. Though the literature available is fairly large, some of them are reviewed hereunder. The first comprehensive study conducted during the post-independence era was the survey done by the All India Rural Credit Survey (AIRCS) Committee (1954). The survey revealed that 92.7 percent of the cultivators depended on the NIAs for borrowing. The studies conducted by Subbi Reddy, T and Ramamuni Reddy (1980,p.32), Tiwari S.N. and Sharma P.K (1986,p.30), Basavaraj Banakar and Suryaprakash, S (1981, p.78) and Satyasai K.J.S. et. al., (1987, p.54) confirmed the continuance of poor access to formal sources of credit even during the eighties. A study conducted by Pratap Singh (1988, p.286) confirmed that although the IAs were providing credit to cultivators, the farmers of all categories had to depend on the moneylenders. The ignorance and conventionality, non-fulfillment of productive needs from the Cooperatives, inflexible and untimely Cooperative finance, high intimate knowledge on the part of moneylenders regarding local production potentialities, the innate and age old link of the borrowers with

moneylenders and poor access to formal capital because of the failure on the part of the farmers to repay the Cooperative dues-all these reasons have underlined the survival of the moneylenders as a source of finance.

Objectives of the Study:

The present study has the following objectives:

1. To trace the evolution of financial inclusion schemes programmes and strategies adopted in India for inclusive economic growth.
2. To study the schemes and programmes of the sample banks for financial inclusion of the poor in the Karaikal Region.
3. To study the socio – economic profile of sample respondents.
4. To evaluate the extent and use of financial inclusion programmes of the banks by beneficiaries.
5. To suggest suitable measures for improving the climate for inclusive growth of this Region.

Methodology

This study is both descriptive and analytical. Survey method was used for the study. Both primary and secondary sources of data were collected and used for the study. The data relating to business profile of sample banks were collected from reports of Lead Bank, The data relating to the performance of sample banks in financial inclusion programmes were collected from the records of the Lead Banks. Apart, from these the publications of Reserve Bank of India, NABARD, Government of India, Government of Puducherry and other documents were referred to elicit the needed data for the study.

Sampling Procedure

The Union Territory of Puducherry comprises of four erstwhile French territories in India viz. Puducherry, Karaikal, Mahe and Yanam, covering a total area of 479 Sq. Kms. Karaikal Region is situated

in more or less in the plains. The Karaikal Region (Study Area) consists of 5 Communes (Administrative Units) the Indian Bank being the Lead bank has branches in all the 5 Communes, from each Commune a Indian Bank branch was selected and from the records of these branches weaker sections were identified and from among the weaker sections 15 per cent of the weaker sections (Customers) was selected on proportionate Random Sampling procedure as on 2011-12. The process of procedure adopted for the selection of sample respondents is given in the following.

Selection of Sample Respondents for the Study

(figure in numbers)

Sl. No	Name of the Commune in Karaikal Region	Total No. of Poor (Weaker Section) Account Holders	Sample selected for the study
1.	Nedungadu	573	86
2.	Thirunallar	527	79
3.	Karaikal – North	693	104
4.	Karaikal – South	680	102
5.	Neravy – T.R Pattinam	507	76
Total		2980	447

Source: Compiled from Indian Bank's, Annual Credit Plan for various years (SLBC)

Period Covered by the Study

The study covered a period of five years, i.e., from 2011-12 to 2015-2016.

Data collection

Both primary and secondary sources of data were collected by administering a structured and pre tested interview schedule separately for banks and the customers. Also, Focus Group

Discussion was used to collect adequate data and information for the study.

Framework of Analysis

An interview schedule was designed to collect data from the 447 sample respondents. The data collected were analyzed through statistical tools to draw inferences. Apart from this, personal discussions were also held with the village opinion leaders, bank branch managers, Lead Bank Manager and other officials who were involved in the implementation of financial inclusion programmes in this Region. The qualitative information obtained from these discussions was used to analyze the quantitative data obtained from the field. The collected data were analysed using statistical tools like T test, Chi-Square Test and ANOVA, etc.,

Scope of the Study

This study mainly focused on socio - economic conditions of the sample respondents who benefited from financial inclusion initiatives of banks located in the selected rural areas in the Karaikal Region. The aim of financial inclusion is to try and ensure that a range of appropriate financial services are available to every individual, in the rural areas. Apart from the regular form of financial intermediation, it also involves opening of 'no frills' banking accounts for receiving payments. At the same time, financial inclusion, in the narrow sense, may be achieved to some extent by offering any one of the services. Financial inclusion is essential for ensuring access to timely financial services and adequate credit to vulnerable groups at affordable cost. Hence, this study mainly focused on the initiatives of banks in Karaikal Region, Puducherry (U.T) in

implementing the schemes of financial inclusion and their utilization by the rural poor.

Socio-Economic profile of Research area

The union territory of Puducherry comprises of Puducherry, Karaikal, Mahe and Yanam regions which were erstwhile French territories. On 26th April, 1956 Pandit Jawaharlal Nehru, the then Prime Minister of India announced in Parliament about the *Treaty of Cession* of French Establishments of French Government and the Government of India. The Territory of Puducherry was merged with the Indian Union on 1st November 1954 in terms of the DEFACTO agreement signed between Government of India and Government of France on 21st October 1954, subsequently the transfer of Puducherry took place on 16th August 1962.

Karaikal

The district is situated in more or less a flat land. This district consists of almost entirely coastal alluvial soil which is highly suitable for cultivation of paddy and pulses. The total geographical rural area of the district is 14035.56 hectares. The percentage of cultivable area to total area and percentage of irrigated area to total cultivable area are 84.92, 82.81 respectively. Pulses, cotton, chilies, coconuts, ground nuts, vegetables and sun flower are the other popular items grown in the district. Karaikal is a good fishing centre.

Banking Network in Karaikal Region

Year	Public Sector Banks	Private sector Banks	PSCB and PBGB	Total Banks
2011-12	21	7	9	37
2012-13	21	7	9	37
2013-14	26	8	10	44
2014-15	29	8	11	48
2015-16	30	8	11	49

Source: Compiled from Indian Bank's, Annual Credit Plan for various years (SLBC)

It was found that there were 253 bank branches in Puducherry U.T. during the year 2015-16. The nationalized commercial banks had 150 branches in this region and private sector commercial banks 39 branches. The Puducherry State Cooperative Banks had 27 branches, while the Regional Rural Banks in Karaikal Region had 36 branches. As credit support from banks played a pivotal role in the development of priority sectors of the economy, monitoring and improving of Ground Level Credit for priority sectors under the Annual Credit Plan at various forum of bankers have been give due importance during recent years.

Banking Network in Puducherry U.T.

Banking Development in U.T. of Puducherry

(Rs.in Crores)

Sl No	Details / Sectors	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Total No of Branches	187	205	214	241	253
	Of which – Rural	76	78	79	81	83
	Semi Urban	35	45	47	66	70
	Urban	76	82	88	94	100
2.	Total Deposits	8169.49	8712.46	9676.51	10685.59	12236.83
	Of Which NRI Deposits (%)	696.48 (8.53)	784.89 (9.01)	921.82 (9.53)	1084.42 (10.15)	1213.34 (9.92)
3.	Total Advances	6044.36	6749.15	7452.84	8329.08	9488.44
4.	CD Ratio (%)	74	77	77	78	78
5.	Investments	178.06	215.40	351.12	331.77	299.11
6.	Cr. + Inv. / Deposit Ratio (%)	76	80	81	81	80
7.	Total Priority Sector Advances	3603.59	4083.32	4595.13	5321.98	6245.82
8.	Percentage of PSA to Total Advances	60	61	62	64	66
9.	Total Advances to Agriculture	1094.34	1335.58	1603.12	1875.78	2140.91

10.	Percentage of Agri. To Total Advances	23.09	19.79	21.15	22.52	22.56
11.	Advances to Weaker Section	753.38	856.72	1006.32	1165.72	1440.35
12.	Percentage to W.S. to Total Advances (%)	12.46	12.69	13.50	14.00	15.18
13.	Advances to SC/ST	259.50	324.54	376.62	450.12	640.15
14.	Advances to DRI	3.66	4.01	5.04	5.50	5.86
15.	Advances to Minorities	378.19	469.16	581.99	700.16	885.88

Source: Compiled from Publications of Indian Bank, SLBC, Puducherry for various years.

Performance Financial Inclusion Programme in Karaikal Region

Credit Rating Information Services of India Limited (CRISIL) Index in June 2015 has released the report of financial inclusion which covers the entire 625 districts of India (CRISIL: 2015, p.7). It has taken three different parameters to measure the level of financial inclusion such as bank penetration, deposit and credit penetration to measure the index of financial inclusion. Hence, basically, the branch network or penetration is considered to be key element in the context of financial inclusion as the other two elements are based on this element. In this study also the same indicators were adopted to measure the level of financial inclusion in Karaikal regions. While analyzing the status of banks branch network in Karaikal Region it was found that 25 banks were serving the people with 49 branches. It was found that Indian Bank (6+8=14) being the lead bank of this region had more number of branches, (it includes the Pudhuvai Bharathiyar Grama Bank PBGB(8)) which was followed by Indian Overseas Bank (5). It was found that branch penetration in the Karaikal district have been adequate. It means that bank branch penetration enable the population to have physical access to the services of bank branches. Further, it was found that the number of branches of

Commercial Bank increased from 21 to 30 during the study period

Position of Deposits Mobilized in Karaikal Region

Government owned banks particularly SBI, IOB and Indian bank accounted for nearly 60 percent of the total deposits of banks in Karaikal, in 2011 -12. But in 2015 while SBI increased its share to 23.4 of the total deposits mobilized, Indian bank and IOB in fact recorded decline and the respective percentage being 15.1 to 15.9. The private banks improved their position during the study period and particularly the performance of Karur Vysya bank, Lakshmi Vilas bank and ICICI bank was noteworthy. PBGB, too showed improvement in deposits mobilization.

Major Findings,

The salient findings of this study are given below:

1. It was found that the total numbers of bank branches was increased from 187 to 253 during the study period in Puducherry UT.
2. It was found that more than 80 per cent of the branches were working in rural areas.
3. It was found that the CD Ratio was more than 70 per cent during the study period.
4. It was found that priority sector advances was more than 70 per cent

- to total advances made by banks during study period.
5. While analyzing sector wise target and achievement in lending loans by banks, it was found that it all the years the target was achieved by banks except during the year 2015-16. This was due to the adverse situation created out of cyclone in this region.
 6. While analyzing the status of banks in Karaikal Region, it was found that 49 banks were serving the banking needs of the people.
 7. It was found that Indian Bank being the lead bank of this region had more number of branches, which was followed by Indian Overseas Bank.
 8. It was found that though Indian Bank and Indian Overseas Bank hand more number of branches than other banks, deposit mobilized by State Bank of India was higher than other banks. Primarily this trend was due to goodwill.
 9. Consequent to this trend in the deposit mobilization, the total loans advanced to agricultural sector by State Bank of India was higher than other banks. For example the total agricultural loan issued by State Bank of India during the year 2011-12 was Rs.50.16 crores which was 19.45 per cent to total credit disbursed in this region. The total agricultural credit issued was increased to Rs. 117.81 crores and its per cent to total loan was also increased to 22.23 per cent.
 10. It was found that all the banks in this region have been implementing various Government schemes and programmes for the Financial Inclusion of the poor.
 11. It was found that there was significant correlation exists between all social variables and amount deposited in the bank and benefits availed under various government schemes.
 12. At the same time it was found that there was correlation between all economic variables and amount deposited and borrowed from bank.
 13. It was found that all the sample respondents opened accounts in the banks only after the implementation of Financial Inclusion programmes by the banks.
 14. It was found that majority of the sample respondents (82 per cent) were having 'no frill' account with the banks.
 15. It was found that majority of the sample respondents (79 per cent) have availed benefits under various schemes and it was possible because of bank accounts.
 16. It was found that majority of the sample respondents (64 per cent) were not depending upon non institutional sources of credit for their credit needs.
 17. Also majority of the sample respondents agreed that the role of money lenders in rural credit market has come down after the introduction of Financial Inclusion Programmes by the banks.
 18. It was found that Financial Inclusion Programmes have brought SHG movement in this region.
 19. It was found that the financial inclusion strategies adopted by banks in this region have significantly contributed to the livelihood of the sample respondents in terms of employments generation, increase in income, better access to instituted sources of credit and standard of living.
- From the above analysis it is concluded that the Financial Inclusion strategies of banks in the Karaikal Region have significantly contributed for the sustainable livelihood of the poor.

Suggestions

The following suggestions are offered for accelerating the financial inclusion initiatives in Karaikal region.

- Establishment of Financial Inclusion cell.

- Digitization of Financial Inclusion Programmes.
- Financial Literacy Programme.
- Pro Poor Banking Products.
- Social Cash transfer.
- Mobile Technology for inclusion.
- Index-based agricultural insurance.
- To offer an interest-free banking window in conventional banks.
- Business correspondent models (BC).
- Encouraging co-operative farming.

Conclusion

The Financial Inclusion Programmes could be viewed both as a business opportunity as well as a social commitment by banks. Through the network of branches are offering basic banking services, the banking sector could play a role in the overall development of the poor and the downtrodden. In this context, this study found that the branch banking has wide reach in Karaikal region. Both deposit and credit penetration had also been good. In fact, the implementation of Financial Inclusion Programmes by the banks in the study area was quite impressive. However, in the current liberalized and globalized economic environment, banks in the Karaikal Region need to design new products and services for these small account customers. Good organizations could be built only with significant customer's stakes. Keeping all these in mind the management of the banks should respond positively to the above challenges for sustainable development of the poor by scaling up their participation in Financial Inclusion Programmes, progressively. This in due course would help the banks to broad base their operations and reduce the role of money lenders in rural credit market in this region. Hence, from the above analysis it could be concluded that the Financial Inclusion Schemes and programmes of banks in the Karaikal Region had significantly contributed to the economic development of poor in this region.

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