

Access to Financial Services to the Rural Household Enterprises

A Study of Srikakulam District, Andhra Pradesh

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Abstract Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players. Financial access can really boost the financial condition and standards of life of the poor and the disadvantaged. So, RBI has been continuously encouraging the banking sector to develop the banking network both through setting up of new branches, installation of new ATMs, implementation of EBT and also through BC model by leveraging upon the information and communication technology (ICT), to provide doorstep banking services through BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system. The main objective of this paper is to study the attitude and perception of the rural household enterprises in Srikakulam district on financial inclusion and inclusive banking.

Keyword: *Financial Inclusion, Financial services, No-Frills Accounts, BC/BFs Model.*

I. INTRODUCTION

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy. The banking sector today has 170 regular banks and over 2,000 Cooperative banks with close to 80,000 branches. In spite of this, according to a World Bank report, more than 87 per cent of India's poor cannot access credit from a formal source and have to depend on moneylenders.

The key stated goal of the RBI in considering the grant of new private sector banking licenses is promoting financial inclusion as well as increasing competition. While this is a positive step for the sector as a whole as it reduces

barriers to entry, it is important to understand the reasons for lack of financial inclusion to assess how this measure should be implemented in conjunction with other measures to further the cause of financial inclusion.

II. ACCESSES TO FINANCIAL SERVICES

Even after 66 years of independence, large sections of Indian population still remain unbanked. This malaise has led generation of financial instability and pauperism among the lower income group who do not have access to financial products and services. However, in the recent years the government and Reserve Bank of India has been pushing the concept and idea of financial inclusion.

The objective of Financial Inclusion by government is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.

As per Census 2011, 58.7% households are availing banking services in the country. There are 102,343 branches of Scheduled Commercial Banks (SCBs) in the country, out of which 37,953 (37%) bank branches are in the rural areas and 27,219 (26%) in semi-urban areas, constituting 63 per cent of the total numbers of branches in semi-urban and rural areas of the country. However, a significant proportion of the households, especially in rural areas, are still outside the formal fold of the banking system.

Government had issued detailed strategy and guidelines on Financial Inclusion in October 2011, advising banks to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts. Out of 3,925 such identified villages / habitations, branches have been opened in 3,402 villages/ habitations (including 2,121 Ultra Small Branches) by end of April, 2013.

Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. BCs and the BC Agents (BCAs) represent the bank concerned and enable a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar

branch is not viable. BCs as of the banks, thus, are an integral part of the business strategy for achieving greater financial inclusion. (Ministry of Finance, Government of India)

The concept 'financial inclusion' marks a major paradigm shift from now the well-known concept of micro finance in retail banking services for customers excluded by banks that were the wealthier sections of the market. Recently, it has been seen as an important element in financial exclusion. An inclusive financial sector, on the other hand, is defined as one that offers a range of financial services to the entire active population. It is characterized by (i) competition among financial service providers, (ii) a wide range of financial service providers, (iii) sustainability with respect to the permanence of access to financial services, and (iv) legal and regulatory environments that are built to ensure the integrity of the financial sector and access to financial services. Micro Finance in India has emerged as a powerful tool for Financial Inclusion. Micro Finance is a novel approach to "banking with the poor".

III. OBJECTIVE

To find out the attitude and perception of the rural household enterprises in Srikakulam district on financial inclusion and inclusive banking.

IV. METHODOLOGY

The study is based on primary data. Primary data has been collected through a participatory approach with the help of structured questionnaire on rural households. The other sources of the primary data include data from

accounting records of the State Bank of India (SBI) and Andhra Bank in Srikakulam District.

V. SAMPLING METHODS

As per 2011 census, 83.84 % population of Srikakulam districts lives in rural areas of villages. The total Srikakulam district population living in rural areas is 2,263,124 of which males and females are 1,125,738 and 1,137,386 respectively. The District is divided into three revenue divisions viz., **Srikakulam, Palakonda** and **Tekkali**. Stratified sampling method was used to select respondents from the rural population the stratified sampling method was used to select respondents who are having bank accounts in either of the two leading public sector banks, which are state Bank of India and Andhra Bank in Srikakulam district. Revenue division is used as a basis of stratification and the purpose of which is to ensure the inclusion of respondents from all revenue group in the sample so as enable the relative comparison of groups in terms of being financially included. 300 sample size (100each) was obtained formal three strata disproportionately.

VI. AVAILABILITY OF COMMERCIAL BANKS IN THE VILLAGE

It is evident from the table which reveals the information regarding the availability of commercial banks in the village. It was found that 268 (89.3 per cent) out of 300 respondents have told that they were having commercial banks in their village, while 32 (10.7 per cent) of them have told that there were no commercial bank branches. So the banks have to open more no of branches.

Table: 1: Availability of Commercial Banks in the Village

Statement	Option	No. of Respondents	Percentage
1) Do you have any commercial bank in your village? (n=300)	Yes	268	89.30
	No	32	10.70
	Total	300	100.00
2) If yes, specify the name of the bank? (n=268)	SBI	203	75.75
	Andhra Bank	39	14.55
	APGVB	10	3.73
	Other banks	16	5.97
	Total	268	100.00
3) What is the distance between the bank and respondents' residence? (n=268)	Below 1 KM	65	24.25
	2 KM	65	24.25
	3 KM	63	23.51
	4 KM	52	19.40
	Above 5KM	23	8.59
	Total	268	100.00

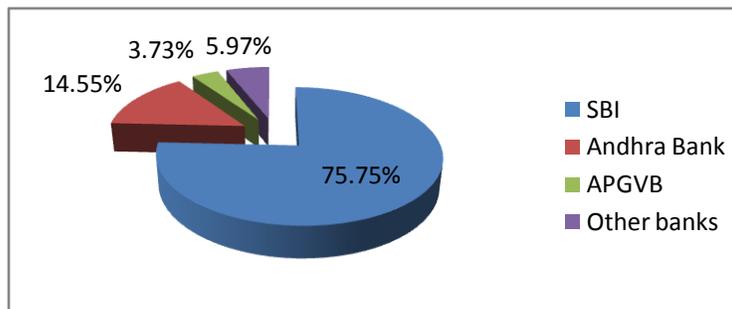
Source: Field Survey

Out of 268 respondents who have told that there were commercial banks it was found that maximum number 203 (75.75 per cent) of them were having an account in SBI, while 39 (14.55 per cent) of them were having an account in Andhra Bank, whereas 10 (3.73 per cent) of them are

having account in APGVB (Gramina Bank) and 16 (5.97 per cent) of them were having an accounts in other banks.

The percentage shown in the above table is presented in the following Figure.

Figure .1 (2): Name of the bank



The table also reveals the information regarding the details of the distance of bank from their residence. It can be seen from the table that out of 268 respondents who were having accounts in various banks only 25 per cent, of them told that they have to travel less than 1 Km while is very accessible whereas 75 per cent have to travel more than 2 km to get banking services.

VII. PROCESSING OF BANK ACCOUNT BY RESPONDENTS

Processing a bank account is a requirement for any citizen so that banking channels are kept open to the customers. Achieving 100% financial inclusion by providing no-frills accounts has been implemented in Srikakulam District in Andhra Pradesh.

Table: 2 : Type of bank account

Statement	Option	No. of Respondents	Percentage
1) Do you have a bank account?(n=300)	Yes	289	96.30
	No	11	3.70
	Total	300	100.00
2) If yes, what type of account (n=289)	Savings Account	138	47.75
	Current Account	95	32.87
	Fixed Account	56	19.38
	Total	289	100.00

Source: Field Survey

The above table reveals the information regarding having an account in a bank and the kind of account they are holding. The respondents were asked whether they have a bank account or not, only 3.7 per cent of them told that they are not having any bank account, while 289 (96.3 per cent) of them said that they were having bank accounts and when asked about the type of account they are holding, majority 48 per cent of them told that they were having Savings Bank Account, and 19.38 per cent of the respondents were having Fixed Accounts. Hence majority of the respondents are having Savings Account.

VIII. OPENING ACCOUNT BY THEMSELVES OR HELP SOUGHT FOR OPENING AN ACCOUNT.

Opening a bank account is the second step towards financial inclusion. It provides access to financial facilities for the financially underserved through formal sources of banking. Financial services providers, technology service providers, and regulators are the functioning participants in the system. As a major initiative to promote financial inclusion, the RBI has directed banks to introduce a basic 'no-frills' banking account with either zero or very low minimum balances to meet the needs of the poor. The RBI has also eased 'know your customer' (KYC) norms to minimize the procedural obstacles of opening a bank account.

Table:3 : Opening Account by themselves or Help sought for opening an Account.

Statement	Option	No. of Respondents	Percentage
1) Do you open your bank account on your own?(n=300)	Yes	88	29.33
	No	212	70.67
	Total	300	100.00
2) If no, whose help you have taken to open an account? (n=212)	Business Correspondents	83	39.15
	Business Facilitator	88	41.51
	Through friends and relatives	41	19.34
	Total	212	100.00

Source: Field Survey

It is clear from the table that when asked about the opening of their account it was found that 71 per cent out of 300 respondents who are having accounts in the bank, told that they don't open the account on their own which shows once again the status of literacy of the villagers and very little number (29 per cent) were able to open account in a bank on their own.

Out of 212 respondents who are not able to open their own account in a bank, 83 (39.15 per cent) of them were taking the help of Business Correspondents for opening account in the bank, while 88 (41.51 per cent) of them were taking the assistance of Business Facilitators, the

remaining only 41 (19.34 per cent) of the respondents were opening the bank accounts through friends and relatives.

IX. AUTOMATED TELLER MACHINE (ATM) SERVICES

The recent developments in banking technology have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like Automated Teller Machines (ATM), credit/debit cards, internet banking, online money transfers etc. However, the access to such technology is restricted only to certain segments of the society.

Table .4: Opinion on Automated Teller Machine (ATM) Services

Statement	Option	No. of Respondents	Percentage
1) Does your financial institution provide automated teller machine services (ATM)? (n=289)	Yes	69	23.88
	No	220	76.12
	Total	289	100.00
2) If yes, do you use these services? (n=69)	Yes	12	17.39
	No	57	82.61
	Total	69	100.00
3) If no, please specify the reason that suits your situation more appropriately. (n=220)	Lack of knowledge	30	13.64
	Lack of access	43	19.55
	Over Complexity	16	07.27
	High amount of charges	51	23.18
	Unnecessary	80	36.36
	Total	220	100.00

Source: Field Survey

The above table represent the information regarding the Automated Teller Services which are provided by the banks. It reveals the data about the ATM services by the concern banks in which the respondents were having their bank accounts. Out of 300 respondents 289 were having bank accounts and among them 220 (76.12 per cent) of them told that their financial institution is not providing

ATM Services, while only 69 (23.88 per cent) of them told that they have been provided with ATM Services by their financial institutions.

Among the 69 (23.88 per cent) respondents who told that their financial institution is providing ATM services, only 12 (17.39 per cent) were using ATM services which are provided by their banks, while 57 (82.61 per cent)

of the respondents were not using the ATM services which are provided by their concern banks.

Among the 220 respondents who told that their financial institution were not providing any Automated Teller Services, when asked 80 (36.36 per cent) of them told that it is unnecessary to have ATM services, while 51

(23.18 per cent) of them told it is of high amount of charges, whereas 43 (19.55 per cent) of them told lack of access as the reason, and 30 (13.64 per cent) of the respondents were not able to know about the Automated Teller Services due to lack of awareness and 16 (7.27 per cent) were of the opinion that it is complex technology.

X. RATE OF INTEREST PAID TO BANKS AND FINANCIAL INSTITUTIONS

Table.5: Rate of Interest paid to Banks and Financial Institutions

Charged by the Banks	No. of Respondents	Percentage
25 paise interest	138	46.0
Below 2.5 % (P.A)	79	26.3
2.5% to 5%	62	20.7
5% to 7.5%	18	06.0
7.5% and above	03	01.0
Total	300	100.0

Source: Field Survey

The table above reveals the information regarding the rate of interest charged by the concern Banks and Financial Institutions. It can be seen from the table that out of 300 respondents, only (46 per cent) of them are paying rate of interest of 0.25 paise, while 79 (26.3 per cent) of the respondents are paying 2.5% interest on their loans, whereas

62 (20.7 per cent) of them are paying an interest rate between 2.5% - 5%, 18 (6 per cent) of them are paying an interest rate as high as 5% - 7.5%, but 3 (1 per cent) of the respondents are paying a much higher interest rate as above 7.5% on their loans

XI. DIFFERENT WAYS AND MODES OF AVAILING LOANS

Table. 6: Different ways and modes of availing loans

Statement	Option	No. of Respondents	Percentage
1) How you will get a loan facility (n=300)	With Mortgage	182	60.70
	Without Mortgage	118	39.30
	Total	300	100.00
2) If yes, what type of mortgage (n=182)	Land	49	26.92
	Gold	72	39.56
	House	27	14.84
	Third Party Security	26	14.38
	Others	08	04.40
	Total	182	100.00

Source: Field Survey

The above table also reveals the information regarding the various ways and modes in which the respondents were availing the loan facilities which have been provided by their banks and financial institutions. When they are asked about how they are availing the loan facility, 182 (60.7 per cent) of them were availing the loan facilities with mortgage, while the rest 118 (39.3 per cent) of the respondents, were able to avail the loan facility without mortgage.

Among the 182 respondents who were availing loan facility through mortgage it was found that 72 (39.56 per cent) of them were providing gold as mortgage for their loans, 49 (26.92 per cent) of them respondents were providing land as mortgage whereas almost similar number of 27 (14.84 per cent) and 26 (14.38 per cent) of the respondents were providing house and third party security respectively as their mortgage for the loans which they are availing from the institutions and banks.

Table .7 : Awareness of financial services provided by their Financial Institution

Statement	Option	No. of Respondents	Percentage
1) Are you aware of the other services provided by the financial institutions? (n=300)	Yes	267	89.00
	No	33	11.00
	Total	300	100.00
2) If yes, what type of services you are utilizing?(n=267)	Loan Facility	97	36.33
	Debit card	40	14.98
	Over draft	38	14.23
	Savings	30	11.24
	Money Transfer	08	03.00
	KCCs	23	08.61
	BC / BFs	14	05.24
	Internet Banking	09	03.37
	Mobile Banking	08	03.00
	Total	267	100.00

Source: Field Survey

The above table reveals the information regarding the awareness of other services provided for them by their financial institutions. It is clear from the table that the 267 (89 per cent) of them are using various services which are provided by the financial institutions, but 33 (11 per cent) of them not using any other facilities provided by their institutions. It was found that only one third of the respondents i.e. 97 (36.33 per cent) using loan facilities, while 40 (14.98 per cent) of them were using 'Debit Cards', whereas 38 (14.23 per cent) of the respondents were

availing over draft facilities and 30 (11.24 per cent) of the respondents were accessing only for Savings. It is interesting to know that almost similar number of 8 (3.0 per cent), 8 (3.0 per cent) and 9 (3.37 per cent) of the respondents were using the facilities like Money Transfer, Mobile Banking and Internet Banking facilities which are provided by the banks and financial institutions respectively, 23 (8.61 per cent), 14 (5.24 per cent) of the remaining respondents were using KCCs and BC /BFs services respectively.

XII. OPINION ON SERVICES PROVIDED BY BCS/BFS

Table.8: Opinion on services provided by BCs/BFs

Statement	Option	No. of Respondents	Percentage
1) BCs / BFs are providing any services (n=300)	Yes	281	93.70
	No	19	06.30
	Total	300	100.00
2) If yes, what type of services? (n=281)	Account opening ,SB A/C	141	50.18
	RD A/C Opening	86	30.60
	SB A/C to Deposit Withdrawal	54	19.22
	Total	281	100.00

Source: Field Survey

The table represent the information regarding the types of services which are provided by the business correspondents and business facilitators. It was found that maximum number of 281 (93.7 per cent) of the BC/BFs provided various other services apart from opening an account in the bank, while 19 (6.3 per cent) of the respondents told that

they were not provided with any other services by the BC/BFs apart from opening an account in the bank.

Out of 281 respondents about 141 (50.18 per cent) of them told that the BCs / BFs provided the services of opening of SB accounts, while 86 (30.60 per cent) of the respondents told that with the help of BCs/BFs they were able to open RD Accounts, whereas 54 (19.22 per cent) told

that with the help of BCs/BFs they were able to do transaction of SB account for deposit and withdrawal.

Table. 9: Increase in status through Financial Inclusion

Option	No. of Respondents	Percentage
Yes	248	82.70
No	52	17.30
Total	300	100.0

The above table reveals the opinion on whether the status level of the rural household respondents has increased through financial inclusion or not. It is evident that as many as 248 (82.7 per cent) of them told that their status in the

society has increased through the financial inclusion services provided by the banks, while a less number of 52 (17.3 per cent) have told that their status level is not up to the mark through financial inclusion.

XIII. BENEFITS OF MICRO FINANCE AND SHGS

Table .10: Benefits of Micro Finance and SHGs

Statement	Option	No. of Respondents	Percentage
1) Micro finance and SHGs are beneficial	Yes	276	92.0
	No	24	8.0
	Total	300	100.0
2) If yes, what type of benefits?	Savings	93	33.69
	Loan facility	88	31.88
	Small business	95	34.43
	Total	276	100.00

Source: Field Survey

The above table gives the details about the various benefits enjoyed by the respondents through Micro Finance or SHGs. It is clear from the data given in the table that out of 300 of the respondents who were members of Micro Finance or SHGs, 276 (92 per cent) gave their opinion as 'Yes' when it comes to various benefits they were enjoying through Micro Finance or SHGs while, only 24 (8 per cent)

of them told that much benefits were not provided by the Micro Finance or SHGs.

Among the 276 respondents who were enjoying various benefits through Micro Finance or SHGs almost similar number of 93 (33.69 per cent), 88 (31.88 per cent) and 95 (34.43 per cent) of the respondents were enjoying various benefits through Micro Finance or SHGs such as **Savings, Loan Facility** and **Small Business** respectively. .

XIV. KNOWLEDGE AND AWARENESS ABOUT HOME LOANS

Table.11: Knowledge & Awareness about home loans

Statement	Option	No. of Respondents	Percentage
1) Do you have an idea (knowledge) about home loan?	Completely Known	261	87.0
	Idea About it	27	09.0
	No	12	04.0
	Total	300	100.0
2) Give the details regarding home loans facilities?	Public Sector Banks	89	29.7
	Private Sector Banks	52	17.3
	Co-operative Banks	39	13.0
	RRB(APGVB)	42	14.0
	MFIs / SHGs	47	15.7
	Others	31	10.3
	Total	300	100.00

Source: Field Survey

The information from the above table reveals the data regarding the knowledge of the respondents about home loans which is provided by the government to the citizens. It is clear that 261 (87 per cent) of them told that they were having complete knowledge about the home loans, while 27 (9 per cent) of the respondents told that they just have any idea about it, and the remaining 12 (4 per cent) of them told that they don't have a knowledge about the home loans.

When asked about the details regarding home loans facilities it can be seen from the table that 89 (29.7 per cent) of the respondents gave the details regarding Public Sector Banks, while 52 (17.3 per cent) of them told about Private Sector Bank details. A further analysis of the table reveals the information that out of 300 respondents 39 (13 per cent) of them gave the details of Co-Operative Bank's home loan facility, while a similar number of 42 (14 per cent) and 47 (15.7 per cent) of the respondents given the details about RRB (APGVB) and MFIs/SHGs respectively, and the remaining 31 (10.3 per cent) of the respondents have given other details regarding home loan facilities.

XV. CONCLUSION

It has been observed that most of the respondents in the paper are moderately satisfied with the rate of interest charged by the bank on loans. Therefore, awareness programs should be conducted for inclusion of more households explaining the benefits of low rates of interest. The Business Correspondents and Business Facilitators model must be effectively implemented. There should be change in organisational structure, innovate delivery model and above all, attitudinal change among bankers. The RBI directed banks to introduce a basic no-frills bank account with either zero or very low minimum balances to meet the needs of the poor. Training sessions should also be conducted by RBI among the rural households to utilize the ATM and other financial services.

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