

# An empirical study on Rural Households' perception towards Financial Inclusion

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**Abstract**— World bank has reported that 70 per cent of the world's population lives in rural area and around 68 per cent of them in Asian countries. According to the National Census 2011, nearly 70 per cent of the Indian population live in villages, rest them in cities. The Reserve bank of India (RBI) noted that 50 percent of the Indian population does not own bank account. In spite of India's reputation as strong financial system, studies and reports mark unhealthy rate of banking diffusion and lower awareness level on banking practices among rural population. In order to penetrate into the rural market, RBI initiated wide range of tools and mechanisms that will include the rural population. The financial inclusion mechanism was sort to compliment the inclusive growth of Indian rural population. The state level banking committee (SLBC) has reported that most of the villages have been included in the folder of financial inclusion plan. The primary question is has it diffused enough and are the rural public aware of the financial inclusion mechanism? Therefore this paper looks to study the rural households' perception towards Financial Inclusion. The paper concentrates on understanding the rural households' awareness level, attitude, and satisfaction towards financial inclusion features. It is a descriptive study resting on the primary data source using structured questionnaire. The survey through stratified random sampling was done to cover villages of Tiruvannamalai district. Quantitative approach was followed for data analysis using percentile, mean and ranking methods for interpretation.

**Index Terms**— ranking, financial inclusion, inclusive banking, inclusive growth, rural banking, rural finance.

## I. INTRODUCTION

Globalization of Indian economy paved way for foreign players to invest into Indian market for producing and marketing both products and services. Indian economy is considered to be a service economy as majority of the growth is supported services sector. Banking industry is one of the prominent contributors to the service growth in India. The emergence of foreign bank into India saw technological transformation and significant development in the Indian market. The competition made both domestic and foreign

players to work towards enhanced and comprehensive banking infrastructure intended to support people from different region.

The Reserve bank of India (RBI) noted that 50 percent of the Indian population does not own bank account. In spite of India's reputation as strong financial system, reports (RBI, 2011) mark unhealthy rate of banking diffusion and lower awareness level on banking practices among rural population. In order to penetrate into the rural market, RBI initiated wide range of tools and mechanisms that will include the rural population. The financial inclusion (FI) mechanism was sort to compliment the inclusive growth of Indian rural population. Though, State level banking committee has reported that most of the villages have been included in the folder of financial inclusion plan[1a], whether the banking services have diffused enough through FI and are the rural public aware of the financial inclusion mechanism? This paper aims at understanding the rural households' perception towards FI. The paper concentrates on understanding the rural households' awareness level, attitude, towards financial inclusion tools and factors affecting inclusiveness. This paper will aid the bankers in understanding the reach of their inclusive tools and also in modifying or positioning the FI mechanisms effectively to reach the rural segment.

## II. CONCEPTUAL BACKGROUND

The doctoral report of Kumar highlights reports[2] suggesting that around half the Indian population is still either without bank account or lack accessibility to the banking services. Large number of people living in the rural and interior parts of India are still part of under banked or unbanked clusters. Some of the main factors that have kept these people away from banking services are irregular income pattern, lengthy and complicated process for consuming loans and opening of bank accounts, lack of proximity to banking institutions, high transportation cost and loss of daily wage[3]. Besides, the Government of India has also undertaken recent initiatives to take banking to the Indian population through 'Pradhan Mantri Jan-Dhan Yojana[4], a mass Financial Inclusion tool to ensure access to financial services, namely, Banking/ Savings and Deposit Accounts. PMJDY accounts are being opened with Zero balance [5].

Financial Inclusion is provision of financial services to the people of lower strata of society. FI is also ensuring access to financial services and timely and adequate credit to people of lower income and cannot afford cost. Some of the major financial inclusion tools [1b] are

- No-frills accounts
- Relaxing on 'Know Your Customer' (KYC) norms
- Agent banking or Business correspondents (BCs)
- M-banking, ATM kiosks centre,

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- GCC (General Credit Cards) and KCC (Kisan Credit Cards)
- Micro branch in the rural regions
- Relaxation on branch authorizations
- White label ATMs

III. LITERATURE REVIEW

There are numerous studies being conducted in the area of FI relating to economically weaker segment as well as rural population. Some of the key aspects noted from various studies are summarized in this section of the paper. The variables identified through literature review forms the basis for designing the research instrument. Hema Divya K (2013) depicted that educating the new financial instruments as the key to include daily wage. Mandira, et al examined the financial inclusion and development of India. The researcher finds that the income inequality, illiteracy and urbanization are the key factors influencing FI. The researcher also marks that the low cost bank account needs to be provided to include financially excluded people in India[7]. A study on financial inclusion and highlighted that the banks need to create awareness on financial products, money management, savings and affordable credit to ensure effective inclusion [8]. discussed financial inclusion as a tool for inclusive growth of Indian perspective. The study found that the economic growth follows financial inclusion and boosting business opportunity will definitely increase the GDP, which reflect national income growth. Chattopadhyay examined the financial inclusion of west Bengal. The author concluded the supply side factor was not responsible for the financial exclusion. Moreover demand side factors are also equally responsible for this exclusion[9].

The literature on financial inclusion lacks a comprehensive measure that can be used to indicate the extent of financial inclusion across countries. Though the supply side factors are widely available, there is less information available on demand side about the degree of financial inclusiveness. The policy on FI has been concentrating only on supply side implementations.

IV. RESEARCH DESIGN

A. Methodology

It is descriptive in nature resting on empirical data. The primary data was sourced through survey method using structured schedule with close-ended questions pertaining to objectives. The survey included 200 household covering 20 villages from Tiruvannamalai district through proportionate random sampling procedure. The data were compiled and analyzed using quantitative approach with the analytical tools that includes simple percentage, mean, and Analysis of variance.

B. Objective of the Study

This paper aims at understanding the rural households' perception towards financial inclusion (FI).

Below mentioned are the objectives of the study:

- To know the awareness level of rural households 'on various FI mechanisms
- To determine the rural households' attitude towards FI initiatives and their intention to use those tools
- To identify the critical factors affecting financial inclusiveness of rural households

V. FINDINGS AND DISCUSSION

A. Demographic Profile

The demographic profile of the respondent shown in table I explain the age, occupation, education and dependents distribution of the households covered in this study. The table above highlights that majority of the rural household respondents included in the study are with lower education standards and largely depend on farming for their livelihood. The profile also indicates that around 70 per cent of the respondents own above 3 dependents support.

Table I. Demographic profile

Demographics	Respondents	Demographics	Respondents
<b>Occupation</b>		<b>Education</b>	
<i>Farming (own land)</i>	<b>78 (39%)</b>	<i>Below 8<sup>th</sup> standard</i>	<b>114 (57%)</b>
<i>Farming (for wage)</i>	<b>104 (52%)</b>	<i>10<sup>th</sup> standard</i>	<b>72 (9%)</b>
<i>Self employed (business)</i>	<b>06 (03%)</b>	<i>Higher secondary (+2)</i>	<b>08 (04%)</b>
<i>Salaried (private)</i>	<b>04 (02%)</b>	<i>ITI/ Diploma</i>	<b>04 (02%)</b>
<i>Salaried (Government)</i>	<b>02 (01%)</b>	<i>Degree</i>	<b>02 (01%)</b>
<b>Age Distribution</b>		<b>Dependents</b>	
<i>30 &amp; Below</i>	<b>30 (15%)</b>	<i>Below 3</i>	<b>62 (31%)</b>
<i>31-40</i>	<b>82 (41%)</b>	<i>3 to 5</i>	<b>96 (48%)</b>
<i>41-50</i>	<b>70 (35%)</b>	<i>Above 5</i>	<b>42 (21%)</b>
<i>Above 50</i>	<b>18 (9%)</b>		

B. Awareness level on FI tools

Awareness level towards various FI tools offered to the rural population by financial intermediaries is highlighted in table II.

Table II. Awareness level (FI tools)

FI tools	Fully aware	Aware	Unaware
No Frill account (PMJDY)	142 (71%)	27(14%)	31(15%)
Relaxation on KYC form	26 (13%)	86 (43%)	88 (44%)
Agent banking	132 (66%)	43 (21%)	25 (13%)
GCC / KCC	106 (53%)	80 (40%)	14 (07%)
Micro branch	182 (91%)	12 (06%)	06 (03%)
Adhaar based account	24 (12%)	48 (24%)	128 (64%)
Mobile banking	128 (64%)	34 (17%)	38 (19%)
OD on savings account	10 (05%)	12 (06%)	178 (89%)

The above mentioned table explains that PMJDY and micro branch has gained higher awareness amongst rural households when compared to other FI tools, as the table II shows that 86 per cent of the rural households are aware of the 'No frill account' and 97 per cent of them are aware of micro branch facilities. Similarly agent banking, Mobile banking and credit card facilities to the rural public has gained reasonably good awareness while FI tools like relaxation on KYC forms, Account based on 'Aadhar' card and OD

facilities have gained poor awareness level amongst the rural households. This shows that there is a mixed awareness level amidst the households and they are not aware of all the FI tools. The organizations need to work on more effective communication or promotional strategy and tool to ensure fully aware rural population which is very important to have fully included banking scenario in India.

**C. Attitude towards inclusive banking tools**

The rural households’ attitude towards FI initiatives were measured using five point ‘likert scale’ with one being the negative attitude and five as a positive attitude towards the IB tools. Below mentioned is the table showing the mean score and the overall mean score.

Table III. Attitude towards FI tools

IF tools	Mean Score	Over all mean
No Frill account	3.23	3.586 Positive attitude
Over draft facility	4.89	
Relaxation of KYC norms	4.89	
GCC (general Credit card)	2.11	
Micro Branch	4.45	
Agent banking	1.12	
Mobile banking	4.52	
Adhaar based account	3.48	

The respondents shared positive attitude about the IF mechanisms. But FI tools like GCC and Agent banking are negatively perceived. No frill account, Micro branch and mobile banking have received the highest score as the respondents highly positive about these inclusive banking services. This shows that the tribal households’ are positive about the inclusive tools in spite of sharing very low awareness level on these tools. The ANOVA calculations showed that demographic differences do not exist on the rural households’ attitude towards IF tools.

**D. Intention-to- use FI tools**

Intention-to-use the inclusive banking tools were sourced through five-point scale. Below mentioned table shows the mean average score.

Table IV. Intention-to-use IB tools

IB mechanism or tools	Mean Score	Over all mean
No Frill account	4.96	3.555 Positive attitude
Over draft facility	3.10	
Relaxation of KYC norms	3.22	
GCC (general Credit card)	2.01	
Micro Branch	4.88	
Door step services	2.15	
Mobile banking	5.86	
Adhaar based account	3.22	

Almost all the respondents are intent to use no frill account and mobile banking. Micro branch facility has also got positive response. Respondents have rated OD facility, relaxation on KYC forms GCC, Door step services and Adhaar based account as neutral, which shows that rural households are not clear about using these services and probably need more explanation or understanding towards these tools. The ANOVA outcome highlighted that

significant differences existed in the age and Education on the households’ intention to use FI tools.

**CONCLUSION**

These findings prove that the banks need to work on improving their communication tool to increase the awareness level and also needs to work on special programs to implement in tribal areas immediately as they show higher interest to consume. This paper would provide information to banks to design effective inclusive programs. This research has also created awareness on the FI tools among the rural people. This paper can create scope for further studies to understand the rural, tribal and urban divide on the perception towards financial inclusive initiatives.

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