A Dissertation Report on

FACTORS AFFECTING FINANCIAL INCLUSION: A STUDY IN ROURKELA

Submitted in partial fulfilment of the requirements for the degree of Master of Business Administration (MBA)

SUBMITTED BY

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DECLARATION

"I, SHRABANEE DAS, hereby declare that this project report entitled "**FACTORS AFFECTING FINANCIAL INCLUSION:A STUDY IN ROURKELA**", submitted by me, under the guidance of Dr. DINABANDHU BAG is my own and has not been submitted to any other University or Institute or published earlier".

Place: Rourkela Shrabanee das

Date: 22/04/2015 313SM1001

ACKNOWLEDGEMENT

“It is not possible to prepare a project report without the assistance & encouragement of other people. This one is certainly no exception.”

On the very outset of this report, I would like to extend my sincere & heartfelt obligation towards all the personages who have helped me in this endeavour. Without their active guidance, help, cooperation & encouragement, I would not have made headway in the project.

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Any omission in this brief acknowledgement does not mean lack of gratitude.

Thanking You

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EXECUTIVE SUMMARY:

Financial services are a ubiquitous need, but the urban rich have easy and universal access with wider options, compared to the low-income group who are forced to accept informal, expensive and riskier means to fulfil their financial needs. While the need for a mix of financial products including credit, savings, insurance, remittance, social & welfare receipts, pension and so on, is well established, the demand for specific services can vary widely.

Key influencers of demand and willingness to pay are demographics, literacy levels, social-dynamics, local enablers and inhibitors, availability of informal and alternate channels (together with their cost and convenience), adaptability to change, comfort with technology, and other exogenous and endogenous factors. At the same time, the demand and the supply of financial services for the poor is imbalanced, with supply being acutely constrained by lack of viability and sustainability of current business models. Evolving and newly emerging business models, rapid technological innovations and state initiatives have greatly facilitated supply conditions to improve and for the providers to consider building market-led self-sustaining alternatives to extend banking and other financial services to the excluded. The policy environment has evolved and (using a mix of loose and tight regulations and taking a controlling, direction setting or mentoring approach) provided suitable incentives and disincentives to promote financial inclusion. It enabled banks to extend outreach through third party agents and agent network managers. Financial inclusion confronts enormous barriers to adoption, some of which can be better dealt with by leveraging the wealth of knowledge and experience from diverse initiatives. The key guiding principles are to stay focussed on:

–The consumer needs and expectations around - accessibility, proximity, simplicity, product relevance, ability to transact in low values, promise of adequate returns, pricing according to willingness to pay, establishing trust, ensuring portability, interoperability and safety.

–The agent needs around viable returns, liquidity management, operational handholding, marketing, speed of response, security and keeping them motivated through a diverse range of incentives.

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INTRODUCTION

Finance is very essential for every economic activity. Without adequate finance no activity can be undertaken. Finance is also required by every section of the society. But from the beginning of the civilization, only the financial needs of the upper section of the society were catered. Access to finance by the poor and weaker groups is very difficult. This is due to the various reasons such as lack of banking facilities for this section, unawareness about the schemes available for them, lack of a regular or substantial income etc. Moreover, banks also give more importance to meet their financial targets. So they focus on larger accounts. It is not profitable for banks to provide small loans and make a profit. Hence, the need for financial inclusion is felt by the Government of India, the policy makers and Reserve Bank of India.

India has, for a long time, recognized the social and economic imperatives for broader financial inclusion and has made an enormous contribution to economic development by finding innovative ways to empower the poor. Starting with the nationalization of banks, priority sector lending requirements for banks, lead bank scheme, establishment of regional rural banks (RRBs), service area approach, self-help group-bank linkage programme, etc., multiple steps have been taken by the Reserve Bank of India (RBI) over the years to increase access to the poorer segments of society. Despite all these efforts, a significant proportion of the households, especially in rural areas, still remained outside the coverage of the formal banking system. It is estimated that about 40% of Indians lack access even to the simplest kind of formal financial services.

In India, the term financial inclusion first featured in 2005, when RBI, in its annual policy statement of 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of the population, urged banks to review their existing practices to align them with the objective of financial inclusion."About 2.9 billion people around the world do not have access to formal sources of banking and financial services. In India alone 560 million people are excluded from formal source of finance, a figure in tight correlation with 41.6 percent (457 million) of the population that still lives below the poverty line (US$1.25/day). While India has enjoyed growing domestic demand and globally recognized prowess in the areas of information technology, automotive, life sciences, telecommunications and even space exploration, its continued success and growth as an economic power (in common with other emerging economies) can only be assured if concrete steps are taken to ensure that the social and economic development is inclusive.

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. Financial inclusion mainly focuses on the poor who do not have formal financial institutional support and getting them out of the clutches of local money lenders.

The **World Bank report states**, "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services."

An inclusive financial system is desirable for many reasons. First, it facilitates efficient allocation of productive resources. Second, access to appropriate financial services can significantly improve the day-to-day management of finances. And third, an all-inclusive financial system can help reduce the growth of informal sources of credit (such as moneylenders) which often tend to be exploitative. Thus, an all-inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services. Branches were opened in large numbers across the country and even in the areas which were hitherto being neglected. Even after all these measures a sizeable portion of the population of the country could not be brought under the fold of the banking system. In fact, there is a severe gap in financial access which needs special attention. Studies have proved that the lack of inclusion or rather exclusion from the banking system results in a loss of 1 per cent to the GDP. Thus, financial inclusion is not just a social-political imperative but also an economic one. Realizing the gravity of the problem, the Reserve Bank in its Mid Term Review of Monetary Policy (2005-06), urged the banks to make financial inclusion as one of their prime objectives.

An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. Also financial inclusion protects unbanked people from informal sources of credit, who charge higher interest rates and often resort to unethical/harsh recovery practices. Access to a bank account provides avenues for secure and safe saving practices. A bank account can also provide a passport to wide ranging financial services such as overdraft facilities, debit card and credit cards. A number of financial services, such as insurance and pension, necessarily require access to a bank account. Thus, an inclusive financial system enhances efficiency and welfare of a society.

There are supply side and demand side factors driving Inclusive Growth. Banks largely are expected to mitigate the supply side processes that prevent poor and disadvantaged social groups from gaining access to the financial system. Despite the risk, financing of first time entrepreneurs is a must for financial inclusion and growth. Apart from the supply side factors, demand side factors, such as lower income and /or asset holdings also have a significant bearing on financial inclusion. Owing to difficulties in accessing formal sources of credit, poor individuals and small and macro enterprises usually rely on their personal savings or internal sources to invest in health, education, housing, and entrepreneurial activities to make use of growth opportunities.

The supply-side mechanism deals with making the financial instrument available to the every section through 'no-frill accounts', the banking correspondents, micro-finances and others. The demand-side mechanism mainly deals with empowerment of the people and sectors thereby making them capable for demanding the services of financial inclusion. The introduction of SHGs (Self Help Groups), financial literacy campaign and others are the demand-side mechanism of financial inclusion.

RBI defines **Financial Inclusion** as "a process of ensuring access to appropriate financial products and services needed by all sections of the 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 regulated mainstream institutional players". Therefore, the objective of Financial Inclusion (FI) is to extend financial services to the large hitherto unreserved population of the country to unlock its growth potential. In addition, it strives to achieve more inclusive growth by making financing available to the poor in particular. Thus, keeping in view of the interests of the poor people, the Government of India (GoI) has taken a number of measures so that the underprivileged sections of the society can reap the benefits of the financial services.

Access to formal banking system is affected by several barriers such as culture, financial literacy, gender, income and assets, proof of identity, remoteness of residence, and so on. Over a period of time several measures are being taken by the banks in India to improve access to affordable financial services through financial education, leveraging technology, and generating awareness. There are number of factors affecting access to financial services by weaker section of society in India. Rural people facing the problems like low income, less security of assets, less literacy, social exclusion, etc. Banks facing the problems to reach of rural people includes lack of legal documents for opening bank accounts, banking products which are not attracting to rural mass of respective region, high cost of transaction, bank official's attitude and language of respective region of rural area. Hence, there is a need for financial inclusion to build uniform economic development, both spatially and temporally, and ushering in greater economic and social equity.

Financial Inclusion denotes supplying financial services to most disadvantaged and needy in society. According to United Nations (2006), financial inclusion involves two primary scopes i.e. formal financial services and multiple financial services providers must be accessible to customers. People outside the mainstream financial services suffer financial disadvantages including: higher-interest credit; lack of insurance; no account into which income can be paid; and higher-cost utilities. There are various socio-cultural, economic issues that hinder the process of financial inclusion. For instance on 'demand side', it includes lack of awareness and illiteracy and on 'supply side' type of products, infrastructure etc. Financial inclusion provides formal identity, access to payments system and deposit insurance, and many other financial services.

Presently, the economy is in a phase of rapidly rising income, for both rural and urban, arising from the expansion of existing economic activities as well as the creation of new activities including corporate profitability, which has exhibited sustainable trends, and increasing consumer incomes thereby riding on the growth momentum. All of these developments signify that demand for financial services, for savings as well as production purposes, will generate, which will bring new entrants in the spree of financial and banking industry. Financial inclusion as a topic has attracted global attention in the recent past. For our own country where almost 70 percent of the population lived in the rural areas, financial inclusion assumes paramount importance indeed and is an utmost necessity for a country where a large number of the world's highest poverty - stricken population resides.

There are a number of factors from demand and supply side affecting access to financial services by weaker section of society in India. Hence, there must be a need for financial inclusion to build uniform economic development and ushering in greater economic and social equity.

1.1 RATIONALE OF THE STUDY

With this background the report aims to study the different factors responsible towards access to financial inclusion mainly in the rural areas of Rourkela. The study utilizes the primary data in an attempt to access the behaviour and factors of financial inclusion in Rourkela. Financial inclusion is meant to include all the sections of the society, who are mainly out of the reach of the financial institutions. Since it is difficult to cover all the sections of the society in our study, we concentrate mainly on the rural sector because of its enormity on the one hand and significance on the other.

1.2 INDUSTRY PROFILE

In India, financial inclusion first featured in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam became the first village in India where all households were provided banking facilities.

In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The Reserve bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Pondicherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts.

Reserve Bank of India has planned Aadhaar-linked bank accounts for all adults of India by January 2016 to meet its commitment on financial inclusion. It will greatly transform India by preventing the poor people falling into debt-traps of unlawful money-lenders, cashless transactions, elimination of poverty and corruption. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

The RBI recently came up with a State-wise Index of Financial Inclusion. In an Index of Financial Inclusion, India has been ranked 50 out of 100 countries. At present, only 34% of the India's population has access to basic banking services.

The latest National Sample Survey Organization survey reports that there are over 80 million poor people living in the cities and towns of India and they lack access to the most basic banking services.

The Eleventh Five Year Plan (2007-12) envisions inclusive growth as a key objective. The inclusive growth implies an equitable allocation of resources with benefits accruing to every section of society. It is aimed at poverty reduction, human development, health and provides opportunity to work and be creative. Achieving inclusive growth in India is the biggest challenge as it is very difficult to bring 600 million people living in rural India into the mainstream. One of the best ways to achieve inclusive growth is through financial inclusion.

MAJOR MILESTONES IN FINANCIAL INCLUSION IN INDIA

1969 Nationalization of Banks

1971 Establishment of Priority sector Lending Banks

1975 Establishment of Regional Rural Banks

1982 Establishment of NABARD

1992 Launching of the Self Help Group Bank Linkage Programme

1998 NABARD sets a goal for linkage one million SHG by 2008

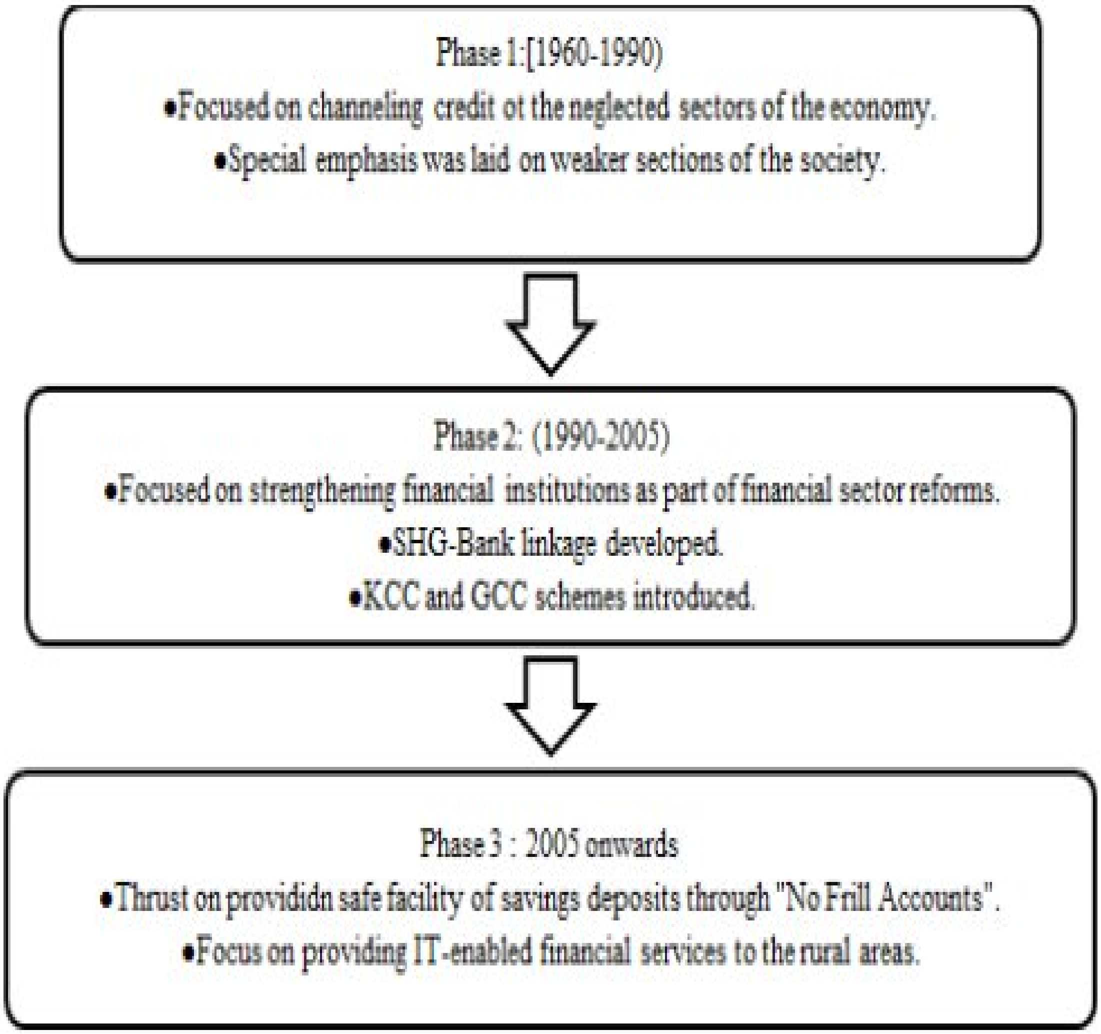
2000 Establishment of SIDBI foundation for microcredit

2005 One million SHF linkage target achieved three years ahead of date 2006 committee on financial inclusion

2007 Proposed bill on Micro Finance Regulation introduced in Parliament

2008 Committee submitted its final report on Financial Inclusion to Union Finance Minister in January

PHASES OF FINANCIAL INCLUSION IN INDIA



Source: IMACS Research

DIMENSIONS OF FINANCIAL INCLUSION

The level of financial inclusion in India can be measured based on three tangible and critical dimensions. These dimensions can be broadly discussed under the following heads:

I. BRANCH PENETRATION

Penetration of a bank branch is measured as number of bank branches per one lakh population. This refers to the penetration of commercial bank branches and ATMs for the provision of maximum formal financial services to the rural population.

II. CREDIT PENETRATION

Credit Penetration takes the average of the three measures: number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population.

III. DEPOSIT PENETRATION

Deposit penetration can be measured as the number of saving deposit accounts per one lakh population. With the help of this measure, the extent of the usage of formal credit system can be analysed.

Among the three dimensions of financial inclusion, credit penetration is the key problem in the country as the all India average ranks the lowest for credit penetration compared to the other two dimensions. Such low penetration of credit is the result of lack of access to credit among the rural households. Therefore, the problem of low penetration needs to be understood more deeply. An attempt has been made to study the problem by examining the progress of financial inclusion over the years and efforts made by the government for reducing the low penetration of credit.

FACTORS AFFECTING ACCESS TO FINANCIAL SERVICES

Some of the major factors affecting access to financial services are:-

Psychological and cultural barriers-Many people willingly excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services. A very general psychological barrier can be easily noticed when older people find it difficult to use ATMs which is the most convenient form of banking today.

Legal identity-Lack of legal identity like voter Id, driving license, birth certificates, employment identity card etc. is also a major factor affecting access to financial services.

Level of income -Low income people generally have the attitude of thinking that banks are only for the rich people.

Various terms and conditions- Since banks are profit making organizations they discourage the non-profitable customers (poor) by the minimum balance requirements. While getting loans or at the time of opening accounts, banks place many conditions, so the uneducated and poor people find it very difficult to access financial services.

Structural procedural formalities- It is very difficult for people to read terms and conditions and account-filling forms due to lack of basic education.

Limited literacy- Lack of financial literacy and basic education prevent people to have access to financial services. Financial literacy involves encouraging people to use various financial products through various economic agents like NGOs (Non-Profit Organizations), MFIs and Business Correspondents etc. People do not know the importance of various financial products like insurance, finance bank accounts, cheque facility etc.

Place of living- Commercial banks operate only in profitable areas. Banks set their branches and offices only in the commercial areas. Therefore, people living in under-developed areas find it very difficult to go for any bank transaction in other areas again and again. Hence, they do not go for any banking services.

Social security payments- In those countries, where the social security payment system is not linked to the banking system, banking exclusion has been higher.

Types of occupation-Many banks have not developed the capacity to evaluate loan application of small borrowers and unorganized enterprises and hence tend to deny such loan requests.

Attractiveness of the product- Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

1.3 INDUSTRY SIZE

No of Accounts opened under PMJDY as on 28.02.2015 (Summary)

	Rural	Urban	No Of Accounts	No Of Rupay Debit Card	Balance In Accounts (In Lacs)	No of accounts with zero balance
Public Sector Bank	58005517	49292126	07297643	100092148	993720.98	66368364
Rural Regional Bank	20226665	3577226	23803891	16678823	196174.44	16308625
Private Banks	3417045	2285316	5702361	5117247	79492.07	3239985
Grand Total	81649227	55154668	136803895	121888218	269387.50	85916974

(A) PUBLIC SECTOR BANKS

Name of Bank	Rural	Urban	No Of Accounts	No Of Rupay Debit Card	Balance In Accounts (In Lacs)	No Of Accounts With Zero Balance
Allahabad Bank	1821406	752956	2574362	2519455	8621.66	1799346
Andhra Bank	1139484	665156	1804640	1793785	8238.72	1199404
Bank of Baroda	3046993	4268916	7315909	7116143	80349.00	3621179
Bank Of India	2678743	3760662	6439405	6257117	35299.00	4084222
Bank of Maharashtra	1208765	562254	1771019	1722210	16783.15	1138917
Bhartiya Mahila Bank	0	60253	60253	60245	660.08	20237
Canara Bank	4174167	1983105	6157272	6157272	72626.25	2402367
Central bank of India	4260496	1234325	5494821	4833685	25421.74	3742885
Corporation Bank	994043	1013229	2007272	1900002	33423.81	679605
Dena Bank	1670232	823690	2493922	2415684	16806.00	1601299
IDBI	472918	424207	897125	868064	3272.07	653395
Indian bank	1597579	923637	2521216	2456693	14313.97	1488096
Indian Overseas Bank	986836	1924528	2911364	2808353	18933.49	1471836

Oriental Bank of Commerce	1318772	929560	2248332	2206617	107142.67	768906
Punjab & Sind Bank	796811	423769	1220580	1171618	46001.35	577266
Punjab National Bank	6466703	1526204	7992907	7306410	77711.95	5936104
State Bank of Bikaner and Jaipur	1044076	1279250	2323326	2000226	53144.48	1212258
State Bank of Hyderabad	892246	1630953	2523199	2493181	12411.13	1756176
State Bank of India	12146182	17588227	29734409	26589267	104534.00	22025341
State Bank of Mysore	591256	201428	792684	747066	3303.18	498317
State Bank of Patiala	389806	726676	1116482	1070678	23251.00	777561
State Bank of Travancore	36269	297384	333653	279108	10429.00	158609
Syndicate Bank	2229157	1138552	3367709	3178904	38459.45	2064376
Uco Bank	2036022	2130771	4166793	3749493	50290.18	2035002
Union Bank Of India	3278764	1030088	4308852	4166263	27880.00	2764768
United Bank Of India	2019162	1505566	3524728	3029923	99264.79	1196402
Vijaya Bank	708629	486780	1195409	1194686	5148.86	694490
Sub Total	**58005517**	**49292126**	**107297643**	**100092148**	**993720.98**	**66368364**

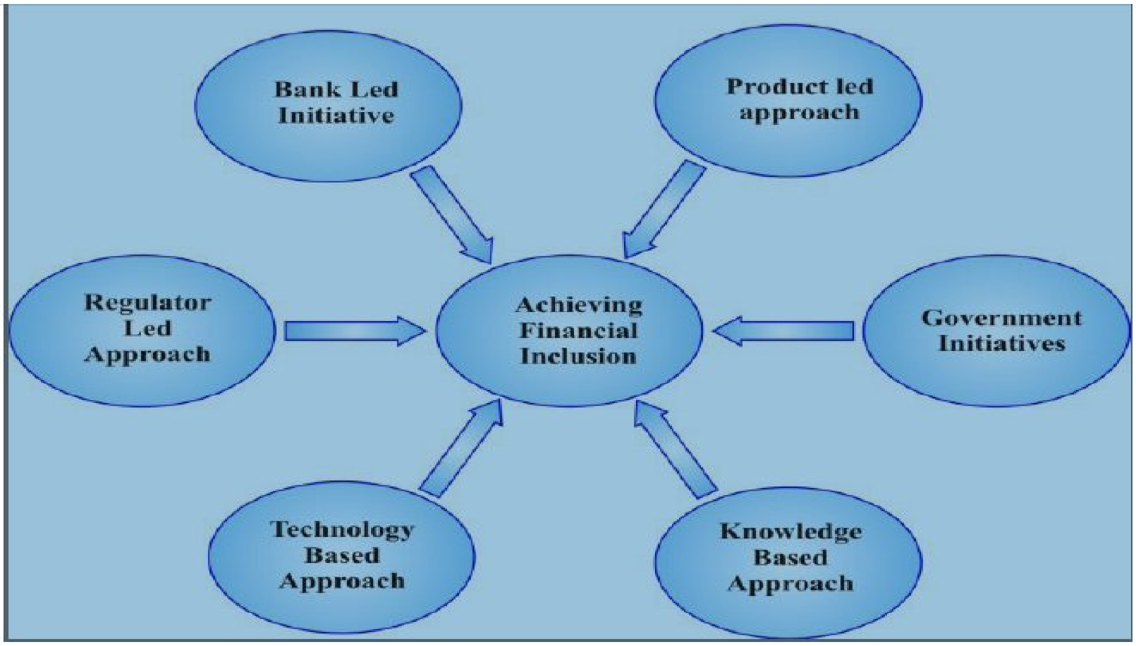
(B) REGIONAL RURAL BANKS

Name of Bank	Rural	Urban	No Of Accounts	No Of Rupay Debit Card	Balance In Accounts (In Lacs)	No Of Accounts With Zero Balance
Allahabad Bank	532404	113275	645679	628674	1964.12	501615
Andhra Bank	127069	9513	136582	132870	635.14	84736
Bank of Baroda	1592163	486720	2078883	1926972	15406.00	1561837
Bank Of India	1422531	425220	1847751	1795823	2094.00	1426851
Bank of Maharashtra	381865	68491	450356	450356	3354.00	393616
Canara Bank	460089	315804	775893	775626	13698.73	269867
Central bank of India	2437485	445001	2882486	2625434	31605.51	2172685
Dena Bank	174647	9609	184256	170961	2318.00	134253
Indian bank	297203	39235	336438	150348	1648.29	231213
Indian Overseas Bank	554924	9135	564059	119913	4780.49	266294

Source: PMJDY report

1.4 GOVERNMENT SUPPORT AND POLICIES

In India, various measures taken by banks, GOI and RBI for financial inclusion plan. Figure highlights currently adopted financial inclusion approaches.



Source: Rangarajan committee(2008)

PRODUCT BASED APPROACH:

Reserve bank of India has been proactive, liberal and supportive while making policies so as to enable financial institutions to come up with innovative products for enabling a common man to get the benefit of the financial inclusion plan. Some products developed for fulfilment of this approach have been mentioned below.

i. No- Frills Account (NFAs):- This concept was introduced by RBI in November 2005 to provide access to basic baking services by financially excluded peoples. Under this approach banks open accounts with zero balance or very minimum balance requirement for the under-privileged. In 2012, the banks under RBI guidelines came-up with a better version of the no-frill accounts where they would open Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with the facility of debit card, cheque book, internet banking, overdraft limits at minimal charges. However, the number of transactions could be restricted so as to prevent misuse of such accounts.

ii. Kisan Credit cards (KCCs):- Under this scheme banks issue smart cards to the farmers for providing timely and adequate credit support from single window banking system for their farming needs. During 2012-13 (up to December 2012), public and private sector banks issued 1.2 million smart cards as KCCs.

iii. General Purpose Credit Cards (GCC) :- In 2005 Reserve bank of India, issue guidelines to banks that to provide General Purpose Credit Card (GCC) which facilitate credit up to Rs.25000/- without any collateral requirement for rural and semi urban people based on assessment of household cash flows. Now as per the revised guidelines in Dec. 2013 under this approach bank also fulfil Non- farm entrepreneurial credit requirement of individuals (e.g. Artisan Credit card, Laghu Udyami Card, Swarojgar Credit Card, Weaver's Card etc) There will be no ceiling on the loan amount as long as the loan is for the purpose of non-farm entrepreneurial activity and is otherwise eligible for classification as priority sector. Security norms will be applicable as per Reserve Bank guidelines on collateral free lending for micro and small units issued from time to time.

iv. Saving account with Overdraft facility: **-** Banks have been advised to provide overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. The setting up of the limit for the same would be done by banks considering the transaction in the account. This would help the customer to get easy access to the credit at lower rates.

BANK LED APPROACH:

i. Self Help Group - Bank Led Initiative (SLBP):- The SLBP or Self Help Group – Bank Linkage Program has been the major institutional based innovation in India for enabling access and covering the gap of reaching financially excluded population of the country in the last two decades. In this model, the banks involve themselves with a group of local people with the idea of enabling them to pool up their savings. The same is deposited with the bank against which the bank also provides a certain amount of credit facility. The group takes a decision whether to lend to any member of the group. The bank provides the framework, accounting services and support to the group to manage their deposits and lending. Thus the model has an approach of savings first, lending later. The banks do not have a risk in such lending as the borrower's reputation and peer pressure in the group would reduce the risk of bad loans considerably. However, the model has some issues that affect the program:

a. Inadequate outreach in many regions.

b. Delays in opening of SHG accounts and disbursement of loans.

c. Impounding of savings by banks as collateral.

d. Non-approval of repeat loans by banks even when the first loan was repaid.

e. Multiple memberships.

f. Borrowings by SHG members within and outside SHGs.

g. Adverse consequences of unhealthy competition between NGO promoted SHGs.

h. Government promoted/subsidy oriented SHGs and limited banker interface.

i. Monitoring of the SHGs.

While the basics of the SHGs being savings led credit product remain true even today, recent developments have given rise to the need for relook in the approach and design of this fairly successful model leading to SHG - 2.

The basic features of SHG - 2 are

a. Voluntary savings apart from compulsory savings.

b. Allowing the sanction of a cash credit / overdraft system of lending for SHGs for a longer operational tenure.

c. Graduating selected members of the group that have entrepreneurship potential into a joint liability groups for borrowing larger amounts.

ii. Business Facilitators (BFs)/Business Correspondents (BCs):- The BC/BF model is a model which based on information and communication technology (ICT). In this model the intermediaries or BC/BFs are technologically empowered by the banks to provide the last mile delivery of financial products and services. Initially created by the banks themselves and later with improvisations and RBI policy support, the model on the back of innovative technologies is bridging the connectivity gap between the service seekers, i.e., under-served public, and the service providers, i.e., the banks. However, a number of issues both for the partner banks and also for the regulators have surfaced since the start of this model. Some of them being:

a. Profitability of the BFs/BCs.

b. Banks and their BFs/BCs are exposed to huge risk of cash management.

c. The training and hand-holding of the BFs/BCs to enhance the trust level of the end customers.

d. Adoption of technology.

e. Compatibility and integration of technology used by the banks and their BFs/BCs.

Based on above facts, the banks have started coming up with the concept of ultra small branches to provide support and supervise work of certain number of BFs/BCs. Also banks could have in-house model where BF/BC outfits could be a subsidiary with its own structure but under closer supervisory control.

REGULATORY APPROACH:

i. Simplified KYC Norms: - Under current KYC norms, a customer has to provide number of documents for opening an account as per RBI guidelines. However, the people living in rural areas face problem in fulfilling these norms. To enable banks to tap in this huge opportunity of rural banking in unbanked areas and to meet the objective of financial inclusion, RBI has relaxed a number of norms for accounts opened by people who plan to keep balances not exceeding Rs.50, 000 and whose total credit in all the accounts taken together is not expected to exceed Rs.100, 000 in a year. Small accounts can now be opened on the basis of an introduction from another account holder who has satisfied all the KYC norms.

ii. Simplified bank saving account opening: - The account opening form has been simplified to ease the opening of account by the poorer sections, street hawkers and other migratory labours of the society.

iii. Bank branch authorization: - RBI has permitted banks to open branches without taking authorization, thus deviating from its normal norms, in tier 3 to 6 city, towns, or villages. This would enable the government, regulator and the banks to speed up the drive for financial inclusion and this make available the financial services to the unbanked population of the country.

TECHNOLOGY BASED APPROACH:

i. Mobile Banking :- One of the most remarkable developments in terms of innovation in order to harness the full power of technology, the banks have tied up with mobile operators to provide financial services like bill and utility payment, fund transfer, ticket booking, shopping etc. Some examples of this model are m- Pesa by Vodafone and Airtel Money.

ii. Kiosk / ATM based banking: - In some states, the state government has taken initiatives for providing kiosk based model for access to financial services. Also banks have used the technology to enable their ATMs to virtually act like a 24x7 branches.

iii. Branchless Banking: - Some of the leading banks have come up with this concept where there would be an online system with chat facility assisting the person to make use of various electronic machines for depositing and withdrawing cash and cheques. However this initiative is in a very initial stage and has a limitation in terms of initial Cost for banks and literacy / knowledge for the rural population and hence this concept is currently limited to urban and semi-urban areas.

iv. Aadhaar Enabled payment services: - In this system, any Indian citizen having an Aadhaar number updates his account with the same. All accounts having aadhaar number updated are to be reported to RBI, which in turn reports it to various government departments. While making payments to people for working under initiatives like MGNREGA or various subsidy schemes, the departments use this information for directly crediting the money to the beneficiary's account. This not only reduces the delay in the benefits being received by the end user, but also reduces the chances of corruption in the distribution of the benefits under schemes. Also the unique biometric identification data stored in the Aadhaar database is expected to empower a bank customer to use Aadhaar as his/her identity to access various financial services. A pilot scheme in four districts of Jharkhand state is currently being carried out under which MGNREGA wages to labourers are credited to their Aadhaar enabled bank accounts.

KNOWLEDGE BASED APPROACH:

Financial education, financial inclusion and financial stability are three elements of an integral strategy to empower people to make effective use of the financial services network. While financial inclusion works from supply side, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. These two strategies together promote greater financial stability.

Financial Stability Development Council (FSDC) has explicit mandate to focus on financial inclusion and financial literacy simultaneously.

RBI had issued guidelines on the financial literacy Centres (FLC) on in June 2012 for setting up FLCs. It was advised that the rural branches of scheduled commercial banks should increase efforts through conduct of outdoor Financial Literacy Camps at least once a month. Accordingly, 718 FLCs had been set up as at end of March 2013. A total of 2.2 million people had been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

GOVERNMENTS INITIATIVES:

The government has taken various initiatives indirectly through the regulators, government promoted schemes through its various ministries. Some such initiatives have been listed below.

i. Introduction of SHG-2:- The original SHG as initialized by NABARD had certain limitations. This led to NABARD preparing a strategy to revitalize the SHG movement leading with the induction of SHG-2 model.

ii. Women SHGs Development Fund: - The Union Budget 2011-2012 proposed a “Women’s SHG’s Development Fund” with a corpus of Rs. 500 crore. The GoI created this fund to empower women and promote their SHGs. The responsibility of managing the fund is of NABARD. It managed the same through two of its major microfinance funds, namely Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF).

iii. Swarnjayanti Gram Swarozgar Yojana (SGSY):- It is a centrally sponsored scheme that follows the mechanism of forming SHGs of rural poor households, providing capacity building training and linking groups to banks. SGSY is primarily designed to promote self-employment oriented income generating activities for the Below Poverty Level (BPL) households in rural areas.

iv. National Rural Livelihood Mission (NRLM):- Established in June 2010 by the Ministry of Rural Development (MoRD), GoI. It is based on the success of Indira Kranti Patham (IKP), a poverty alleviation program being implemented in Andhra Pradesh. The key strategies of NRLM are to:

a. Implement the program with greater emphasis on federations of SHGs.

b. Provide flexibilities to states for designing specific action plans for poverty alleviation.

c. Introduce interest subsidy for encouraging repayments of loans and provide multiple doses of credit.

d. Improve training and capacity building efforts by setting up skill training institutes in each district.

e. Facilitate market linkages.

f. Improve monitoring and evaluation process.

v. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):- This scheme aims to enhance the livelihood of the rural people by guaranteeing at least one hundred days of wage employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. As the payments are made through the bank/post office accounts, in 2010-11, nearly 10 crore bank/post office accounts have been opened.

vi. Aadhaar- Unique Identification Authority of India (UIDAI):- The GoI has embarked an initiative to provide an individual identification number to every citizen of India and in 2009; it established the UIDAI to issue these cards on behalf of the GoI. This number provided by UIDAI will serve as a proof of identity and address, anywhere in India. The Aadhaar number will also enable people to have access to services such as banking, mobile phone connections and other government and non-government services in due course. In addition, the UIDAI has introduced a system in which the unbanked population will be able to open an account during enrolment with Aadhaar without going to a bank. The individual will be able to access such bank accounts through a micro-ATM network with large geographic reach.

PRADHAN MANTRI JAN DHAN YOJANA is a scheme for comprehensive financial inclusion launched by the Prime Minister of India, Narendra Modi on 28 August 2014. He had announced this scheme on his first Independence Day speech on 15 August 2014. Run by Department of Financial Services, Ministry of Finance, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme. By 28 January 2015, 12.58 crore accounts were opened, with around ₹10590 crore (US$1.7 billion) were deposited under the scheme, which also has an option for opening new bank accounts with zero balance. The scheme has been started with a target to provide 'universal access to banking facilities' starting with "Basic Banking Accounts" with overdraft facility of Rs.5000 after six months and RuPay. Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kisan Card. In next phase, micro insurance & pension etc. will also be added. Under the scheme:

1. Account holders will be provided zero-balance bank account with RuPay debit card, in addition to accidental insurance cover of Rs 1 lakh(to be given by 'HDFC Ergo').

2. Those who open accounts by January 26, 2015 over and above the 1 lakh □ accident, they will be given life insurance cover of □ 30,000(to be given by LIC).

3. After Six months of opening of the bank account, holders can avail 5,000 □ overdraft from the bank.

4. With the introduction of new technology introduced by National Payments Corporation of India (NPCI), a person can transfer funds, check balance through a normal phone which was earlier limited only to smart phones so far.

5. Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.

Due to the preparations done in the run-up, as mentioned above, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened. The Prime Minister said on this occasion- "Let us celebrate today as the day of financial freedom." By September 2014, 3.02 crore accounts were opened under the scheme, amongst Public sector banks, SBI had opened 30 lakh (3 million) accounts, followed by Punjab National Bank with 20.24 lakh (2 million) accounts, Canara Bank 16.21 lakh (1.62 million) accounts, Central Bank of India 15.98 lakh (1.59 million) accounts and Bank of Baroda with 14.22 lakh (1.42 million) accounts. It was reported that total of 7 Crore (70 million) bank accounts have been opened with deposits totalling more than 5000 crore Rupees (approx 1 billion USD) as of November 6, 2014. As the government met the target, Union Finance Minister Arun Jaitley has revised the target for opening of bank accounts under the Pradhan Mantri Jan Dhan Yojana (PMJDY), the ambitious financial inclusion scheme launched by the government, from 7.5 crore to 10 crore by January 26, 2015. On 20th January 2015, the scheme entered into Guinness book of world records setting new record for 'The most bank accounts opened in one week'.

Objective of **"Pradhan Mantri Jan-Dhan Yojana (PMJDY)"** is ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology. **PMJDY** is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of □ 1 lakh. The plan also envisages channelling all Government benefits (from Centre State / Local Body) to the beneficiaries' accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. The technological issues like poor connectivity, on-line transactions will be addressed. Mobile transactions through telecom operators and their established centres as Cash Out Points are also planned to be used for Financial Inclusion under the Scheme. Also an effort is being made to reach out to the youth of this country to participate in this Mission Mode Programme.

Multiple initiatives have been undertaken by both GOI and the RBI to tackle the problem of giving the unbanked people an access to financial services. Many of these initiatives were entirely new schemes with little thought about synergy with other schemes existing in the system. The existing extensive network of post offices can be targeted by utilizing it as an alternative banking solution for the unbanked people. In this context, current banking facilities available for people at post offices have been explored and also their capabilities have been observed for the cause of financial inclusion at minimum cost and maximum synergies. In India, there are nearly 1, 54,856 post offices as on March 31, 2013, with nearly ninety percent in rural areas. State-wise distribution of post offices reveals that a large network in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh can be useful to extend financial inclusion.

Number of Post Offices (Rural and Urban) Year	Rural	Urban
2008-09	1,39,144	15,871
2009-10	1,39,182	15,797
2010-11	1,39,040	15,826
2011-12	1,39,086	15,736
2012-13	1,39,164	15,692

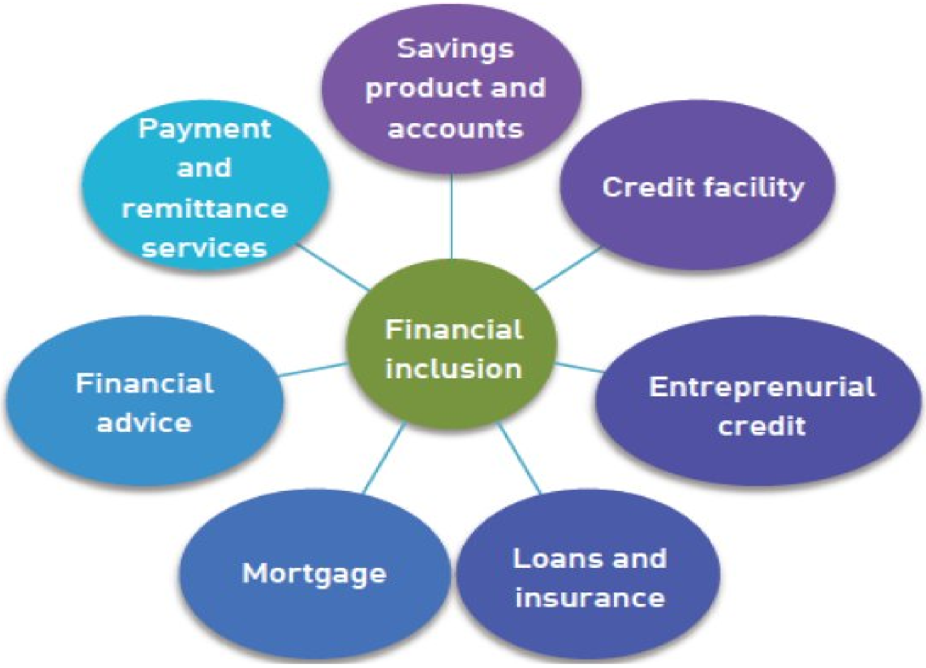
Source: India Post (2013)

State Bank of India Financial Inclusion: Highlights FY 2013-14

- The Bank has set up 45,487 BC Customer Service Points (CSPs) through alliances both at National and Regional level.
- The Bank is offering various technological enabled products through Business Correspondent (BC) channel, such as, Savings Bank, flexi RD, STDR, Remittance & SB-OD facilities.
- The Bank has achieved 100% coverage in 31,729 villages during FY14. The cumulative coverage has gone up to 52,260 villages.
- 11,423 BC outlets have been set up in Urban/Metro centres which cater to the requirements of migrant labourers, vendors, etc. During FY14, 226 lac remittance transactions for Rs. 9,983 crore were registered through BC channel.
- During FY 14, Bank has opened 1.50 crore Small accounts with simplified KYC.
- The transactions volume through BC Channel has grown to Rs. 22,525 cr. during FY 14 as against Rs. 13,033 crore during FY13.
- With a view to facilitate transactions through alternate channels, the Bank has issued 24 lac FI Rupay ATM Debit Cards to FI customers.
- Linking of villages to branches through CSPs in a Hub and Spoke model has been launched and 69,749 villages have been linked so far. A facility of depositing loan repayments at 31,919 BC outlets has also been enabled.
- Under Direct Benefit Transfer (DBT) Scheme, the Bank has handled 27.41 lac transactions amounting to Rs. 505 crore as Sponsoring Bank in addition to 7.1 lac transactions amounting to Rs. 98.61 crore as Receiving Bank. Overall 1.36 crore accounts linked with Aadhaar across the country.
- SBI is the sole Sponsoring Bank for DBT for LPG transactions which are processed centrally for all the three Oil Marketing Companies. Over 8.98 crore transactions amounting Rs 5,393 crore processed.
- 4.46 lac SHGs credit linked with credit deployment of Rs. 5,134 crore. Our market share in SHGs is 22%.

PRODUCT PROFILE

Financial products and services provided to the people through financial inclusion are:



Source: Rangarajan committee(2008)

- Service facility
- Overdraft facility
- Payment and remittance services
- Low cost financial services
- Cheque facility
- All kinds of commercial loan
- Electronic fund transfer
- Credit and Debit Cards access
- Access to financial markets
- Financial advice
- Insurance (Medical insurance)
- Micro credit during emergency
- Entrepreneurial credit

- In order to ensure that all the financial needs of the customers are met, banks are advised banks to offer a minimum of four basic products, viz.
- A savings cum overdraft account.
- A pure savings account, ideally a recurring or variable recurring deposit.
- A remittance product to facilitate EBT and other remittances.
- Entrepreneurial credit products like a General Purpose Credit Card (GCC) or a Kisan Credit Card (KCC).

REVIEW OF LITERATURE

The literature on financial inclusion is new but growing. The factors affecting financial inclusion depend precisely on the way financial inclusion is defined. Financial inclusion (or, alternatively, financial exclusion) has been defined in the literature in the context of a larger issue of social inclusion (or exclusion) in a society. Financial exclusion may be caused by (1) "geographic limitations" due to under-provision of banking services in remote and scarcely populated areas, (2) "socioeconomic limitations" when financial services appear inaccessible to specific income, social or ethnic groups, or (3) "limitations of opportunity".

According to **V.Leeladhar (2005)**, financial inclusion usually refers to the delivery banking services at an affordable cost to the vast sections of the disadvantaged and low income groups. **Dr K.C. Chakrobarty (2011)**, gives another wide definition, which defines financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups in particular at an affordable cost in a fair and transparent manner. Financial inclusion has been defined by the **Rangarajan Committee Report (2008)**, as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." **Das Prasun Kumar (2010)**, said that the objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low income and the unreachable through the formal financial system to make them partner of economic growth of the country.

Unnikrishnan and Jagannathan (2012), mentioned the necessity of financial inclusion for socio-economic empowerment. The paper identified the factors helping in financial inclusion, analyzed the hindrance to efficient financial inclusion and the due steps to be taken to over par the barriers and enable inclusive growth. The paper had a concluding section which mentioned the factors that empower the masses financially and states more emphasis on social inclusion in comparison to financial inclusion by rein forcing the importance of self-sustenance at the bottom of the pyramid. **V.Ganeshkumar (2013)**, noted that branch density in a state measures the opportunity for financial inclusion in India. Literacy is a prerequisite for creating investment awareness, and hence intuitively it seems to be a key tool for financial inclusion. **Pal and Pal (2012)**, analyzed that income related inequality in financial inclusion in India by using a representative household level survey data, linked to State-level factors. The results of the research depict that the extent of financial exclusion is quite severe among households across all income groups, This paper also provides estimates of the effects of various socio, economic and demographic characteristics of households on propensity of a household to use formal financial services, and made a comparison of rural and urban sectors.

Martínez,C.H,Hidalgo,X.,P,Tuesta,D (2013), found that socioeconomic factors from individual point of view influence the decision of whether or not to use formal saving or credit financial services. The insufficiency or variability of income and self-exclusion are the most important barriers to financial inclusion in Mexico. **Rojas- Shabna Mol TP (2014)**, found that lower financial literacy, lack of awareness and cost of transaction are important barriers to financial inclusion. **Devlin (2005)** found that those of a more secure status economically are less likely to be financially excluded. Cultural and psychological barriers prevent people to have access to financial services. Financial exclusion by **Stephen P. Sinclair (2001)**, means the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions. As stated by **Claessens (2005),** financial exclusion often reflects a wider social exclusion, which involves factors such as education level, type of employment, and training**.** According to the **World Bank (2008),** cited in **Honohan and King, (2009),** the causes of financial exclusion were broken down into: insufficient income; discrimination; contractual/information framework; and price and product features. In their research, they looked to see the reasons that none financial user gives for not using financial products. Further, countries with low levels of income inequality tend to have relatively high level of financial inclusion **Buckland et al, (2005)**. **Kempson and Whyley, (1998),** Another factor that can be associated with financial inclusion is employment. **Goodwin et al, (2000),** Higher the income level, both at the individual level and for a country, higher is the financial inclusion. **Mandira Sarma,Jesim Pais (2008)** ,They find out that level of human development and that of financial inclusion are strongly positively correlated, income as measured by per capita GDP is an important factor in explaining the level of financial inclusion in a country. Economic status of the household is found to be positively and significantly correlated with the degree of financial inclusion.

Laha, A, Dr, Kuri, P, K., Dr (2011), There is a significant relationship between socio-economic factors and financial inclusion. **Clamara,N,Peña,X,Tuesta,D.,(2014). Carbo et al (2010),** those families with lower incomes are most likely to be financially excluded. **Kumar,N.,(2012),** found that level of economic condition is a vital determinant of financial inclusion efforts. It implies that region's structural and environmental setup has a role in determining the deposit penetration. **Radha Krishan Sharma, Vishal Jain and Swati Gupta (2014),** Study concluded that quality and accessibility to financial services and awareness about financial products are key factors that influence demand of financial services. According to **Dangi, N, Kumar, P., (2013),** Lack of financial literacy and basic education prevent people to have access to financial services. **Gupta, P., Singh, B., (2013),** found relationship between role of literacy level and financial inclusion. Lack of financial literacy and basic education prevent people to have access to financial services.

GAP ANALYSIS

Title	Author	Major Findings	Gap Analysis
An Analytical Study: Relevance of Financial Inclusion For Developing Nations (march 2013)	Dr. Anupama Sharma, Ms. Sumita Kukreja	There is a lot of gap between the formal financial institutions and the rural people.	How this gap can be reduced is not being proposed in this paper.
Factors that Matter for Financial Inclusion: Evidence from Peru (February 2014)	Noelia Clamara, Ximena Peña And David Tuesta	The results show that the traditionally more vulnerable groups (women, individuals living in rural areas and young people) are those with the greatest difficulties in accessing the formal financial system.	How the inclusive strategies can be implemented from both public and private institutions is missing in this paper.
Financial Inclusion and its determinants: Evidence from state level empirical analysis in	NITIN KUMAR	The income level has a positive impact on both credit and deposit Penetrations.	Why there is a negative correlation between the population density and deposit penetration.

India (2008)			
Financial Inclusion in Indian Scenario(2009)	Devendra Prasad Pandey and Amit Kumar Katiyar	The study tells the importance of inclusive growth of Indian economy through financial Inclusion.	The paper does not give any idea about the determinants which plays an important role in financial inclusion.
Financial inclusion: concepts and overview in Indian context. (June 2014)	Shabna Mol TP	The paper highlights about the conceptual aspects of financial inclusion, point out the reasons for financial exclusion.	There are certain problems like lower financial literacy, lack of awareness; the cost of transaction is not at all cost-effective.

OBJECTIVES AND SCOPE

4.1 OBJECTIVES OF THE PROJECT

- To study about the various factors that affects financial inclusion.

- To study the major initiatives and policy measures taken by RBI and GoI for financial inclusion.

4.2 SCOPE OF THE PROJECT

- The study is undertaken in various places of Rourkela.
- The scope of data collection contains people from different groups, which includes population from different strata of society (rural, semi-urban and urban) residing in Rourkela city.
- The major variables considered during the study are Socio- Demographic (Social class, gender and age groups) and Financial Services (Total number of bank accounts ,growth in number of bank accounts, total deposits etc).

4.3 HYPOTHESES

The hypotheses tested are:

- H1: There exists a positive relationship between social factors and financial inclusion.
- H2: There exists a positive relationship between economic factors and financial inclusion.

RESEARCH METHODOLOGY

5.1 OBJECTIVE

- To study about the various factors which affects financial inclusion.
- To study the major initiatives and policy measures taken by RBI and GoI for financial inclusion.

5.2 TYPE OF RESEARCH

A research design is the specification of methods and procedures for acquiring the needed information. Design adopted here is descriptive. It basically seeks to extract information about financial inclusion from various households.

5.3 SAMPLING

An integral component of research design is the sampling plan. Especially it addresses three questions: who to survey (sample unit) how many to survey (sample size) and how to select them (sampling procedure). Making the census study of the entire universe will be impossible on the account of limitations of time and money. Hence sampling procedures represent data of the entire population.

5.3.1 SAMPLE UNIVERSE

The sample universe is Rourkela.

5.3.2 SAMPLE SIZE

The size of sample is 200 respondents.

5.3.3 SAMPLE UNIT

Various households like:

- Agricultural Farmers
- Artisans
- Labourers
- Self Employed

5.3.4 SAMPLING METHOD

Random sampling was used here because the study is not restricted to one industry. Different households work in almost all the industries.

5.4 DATA COLLECTION TECHNIQUES/ TOOLS

Questionnaire and Personal interview were used as a tool for the collection of data, mainly because it gives the chance for timely feedback from respondents.

5.5 ANALYSIS TECHNIQUES – STATISTICAL TOOLS AND TECHNIQUES USED.

- Descriptive statistics- Bar graphs interpretation by analysing the questionnaire.
- Statistics- Linear Regression models using IBM SPSS Statistics 20

5.6 LIMITATIONS

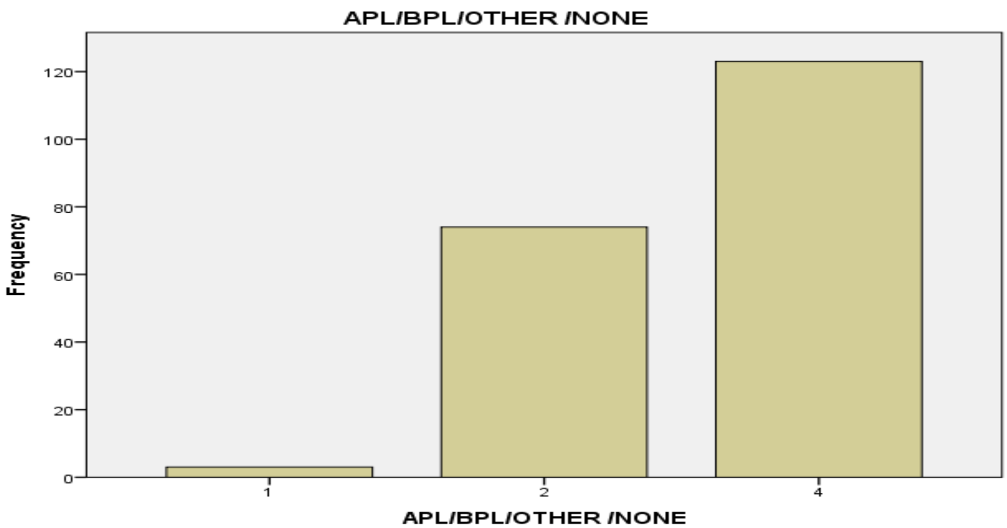
- The study is limited only to Rourkela and cannot be used to make an inference for the whole state of Odisha.
- The constraint is the time duration.
- Although the assumptions are quite reasonable, it deserves further examination. In addition, this study was not designed to be a representative survey, and its findings cannot be generalized urban and rural households but a sample size of 200 is a big constraint in defining the various factors which affects and impacts financial inclusion of a larger population in Rourkela.

DATA ANALYSIS AND INTERPRETATION

DESCRIPTIVE STATISTICS:

CATEGORY		Frequency	Percent
Valid	1(APL)	3	1.5
	2(BPL)	74	36.8
	4(OTHERS)	123	61.2
	Total	200	99.5
Missing	System	1	.5
Total		201	100.0

Table1: Category of Respondents



Graph 1: Respondents Category

Analysis:

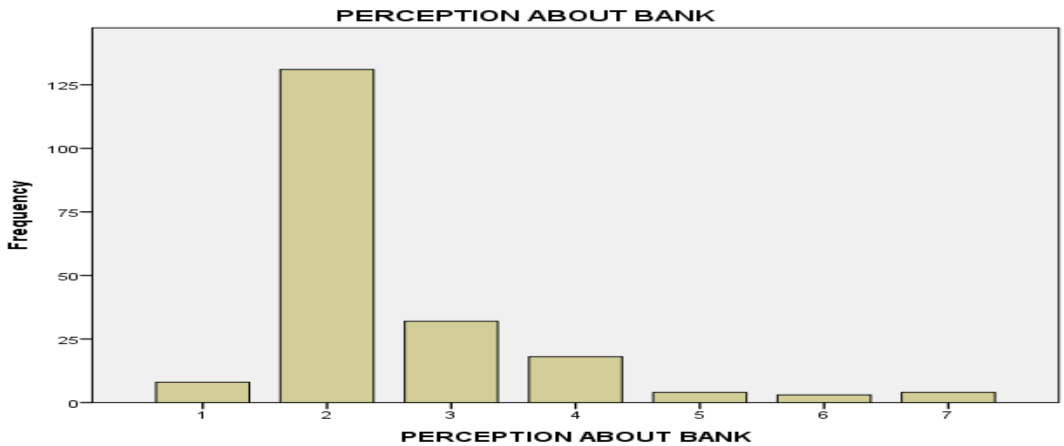
From the above graph it is observed that 74 and 123 of the total respondents belong to BPL and others or none category respectively.

Inference:

From the analysis 36.8 percent and 61.2 percent of the total respondents belong to BPL and others (or, none) category respectively.

Perception about bank		Frequency	Percent
Valid	1(low rate of interest on deposits)	8	4.0
	2(high rate on lending)	131	65.2
	3(Do not give loans)	32	15.9
	4(do not give full cash)	18	9.0
	5(difficult to approach loan)	4	2.0
	6(ask for security deposit)	3	1.5
	7(others)	4	2.0
	Total	200	99.5
Missing	System	1	.5
Total		201	100.0

Table 2: Perception about bank



Graph 2: Perception about bank

Analysis:

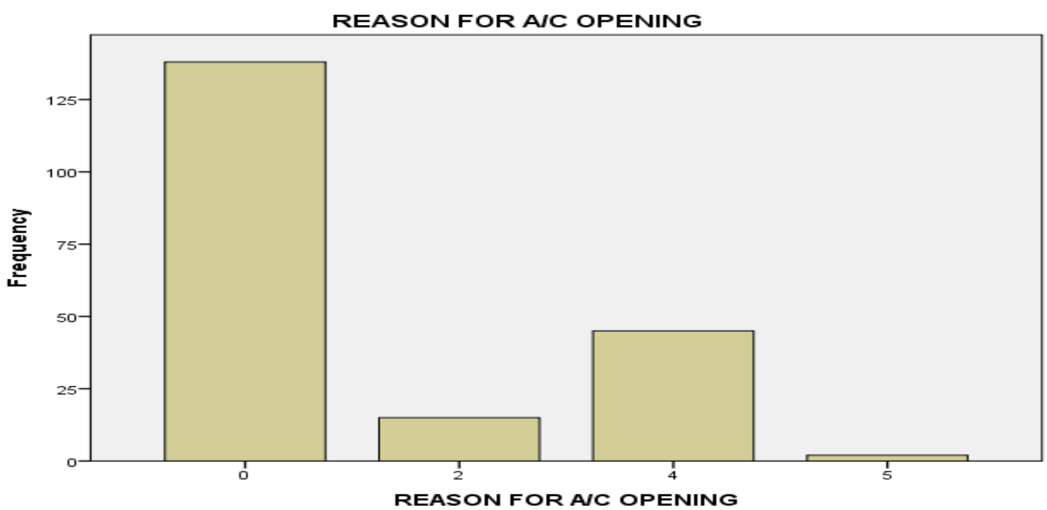
From the table it can be seen that 8 perceive bank to give low interest on deposits,131 think that they charge high rate on lending,32 do not give loans,18 perceive banks do not give full cash, the remaining perceive it's difficult to approach for loan and ask for security deposit.

Inference:

Fromm the analysis it can be observed that the maximum of the respondents with 65.2% perceive bank as a devil in charging high rates on lending. While the next majority with 15.9% think that banks do not give loans at all and the rest perceive banks do not give loans at all, difficult to approach from loans and ask for security deposit respectively.

Reason for account opening		Frequency	Percent
	0(No acct.)	138	68.7
	2(Govt. Benefits)	15	7.5
Valid	4(Salary acct.)	45	22.4
	5(Loan from Bank)	2	1.0
	Total	200	99.5
Missing	System	1	.5
Total		201	100.0

Table 3: Reason for account opening



Graph 3: Reason for account opening

Analysis:

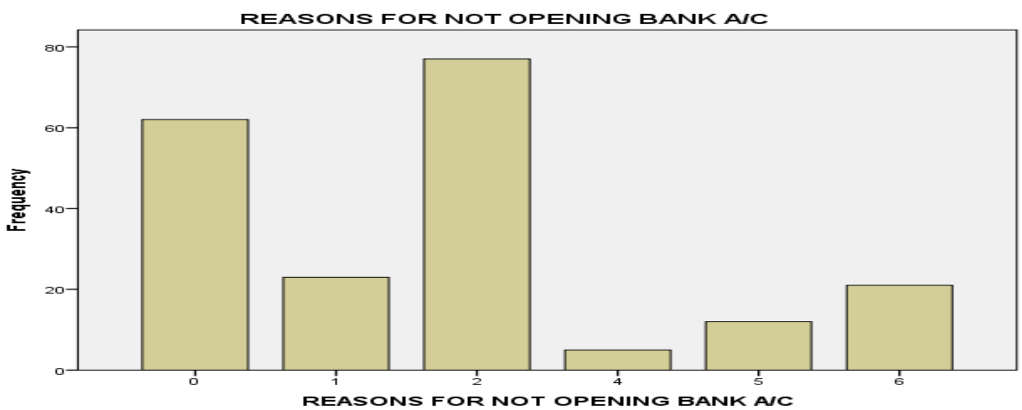
From the table it can be seen that 138 do not have any account. In the contrary 15, 45 and 2 are the numbers who have account opened for Govt. Benefits, salary account and loan from bank respectively.

Inference:

From the analysis it is observed that 7.5 percent have opened bank account to avail government benefits, 22.4 percent have opened their bank account to keep the money as a saving and just 1 percent have opened account to avail the loan services from bank.

Reasons for Not opening Bank account		Frequency	Percent
Valid	0(Have Account)	62	30.8
	1(believe in cash)	23	11.4
	2(No or little money)	77	38.3
	4(Bank charge a lot)	5	2.5
	5(Deny from staffs)	12	6.0
	6(lengthy procedure)	21	10.4
	Total	200	99.5
Missing	System	1	.5
Total		201	100.0

Table 4: Reason for not opening bank account



Graph 4: Reason for not opening bank account

Analysis:

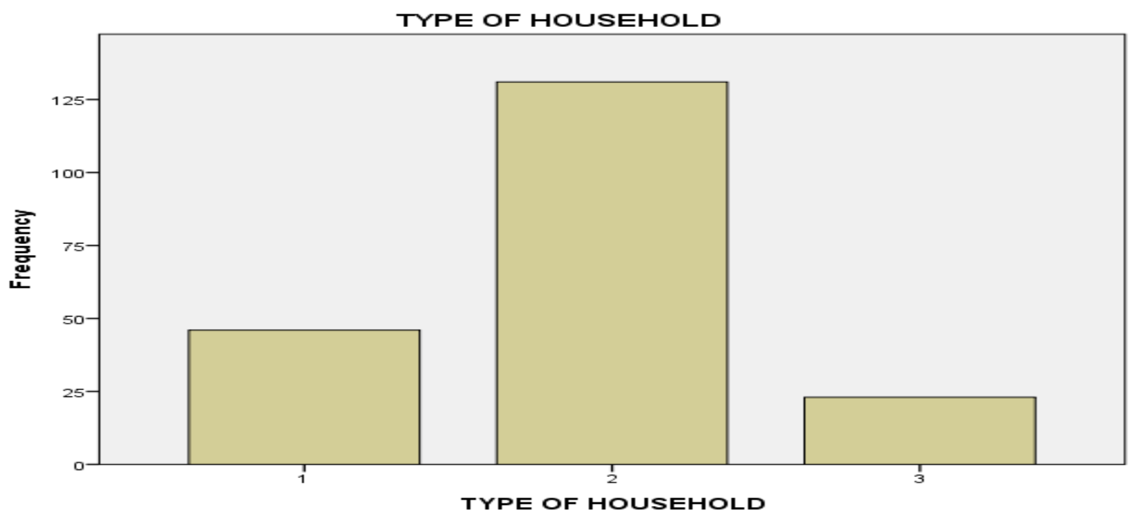
From the table it can be observed that 62 have a bank account, 23 believe in cash, 77 have no or little money, 5 think bank charge a lot, 12 said they were denied by staffs and 6 think lengthy procedure the reason behind not opening bank account.

Inference:

From the analysis it can be seen that 30.8% have bank account, 11.4% do not opened the account as they believe in cash only.38.3% of respondents do not have or have little money to operate a bank account.2.5% believe that bank charge a lot for maintaining or opening a bank account.6% got denial from Bank staff and the rest 10.4% think that they do not have a bank account due to its length and hassle procedure.

TYPE OF HOUSEHOLD		Frequency	Percent
Valid	1(Rented)	46	22.9
	2(Self-owned)	131	65.2
	3(Parental property)	23	11.4
	Total	200	99.5
Missing	System	1	.5
Total		201	100.0

Table 5: Type of Household



Graph 5: Type of Household

Analysis:

From the Table it can be seen that 46,131 and 23 out of 200 respondents have type of Household as Rented, self-owned and Parental property respectively.

Inference:

From The analysis it can be observed that 22.9% of the total respondents live in a house by giving rent. While 65.2% have their own house and the rest 11.4% live in house built by their forefathers or have parental property.

SIZE OF HOUSEHOLD

Size of Household		Frequency	Percent
Valid	1(1 room)	86	42.8
	2(2 room)	56	27.9
	3(3 or more room)	58	28.9
	Total	200	99.5
Missing	System	1	.5
Total		201	100.0

Table 6: Size of Household

Graph 6: Size of household

Analysis:

From the table it can be observed that 86, 56 and 58 respondents have 1 room, 2 rooms and 3 or more rooms respectively.

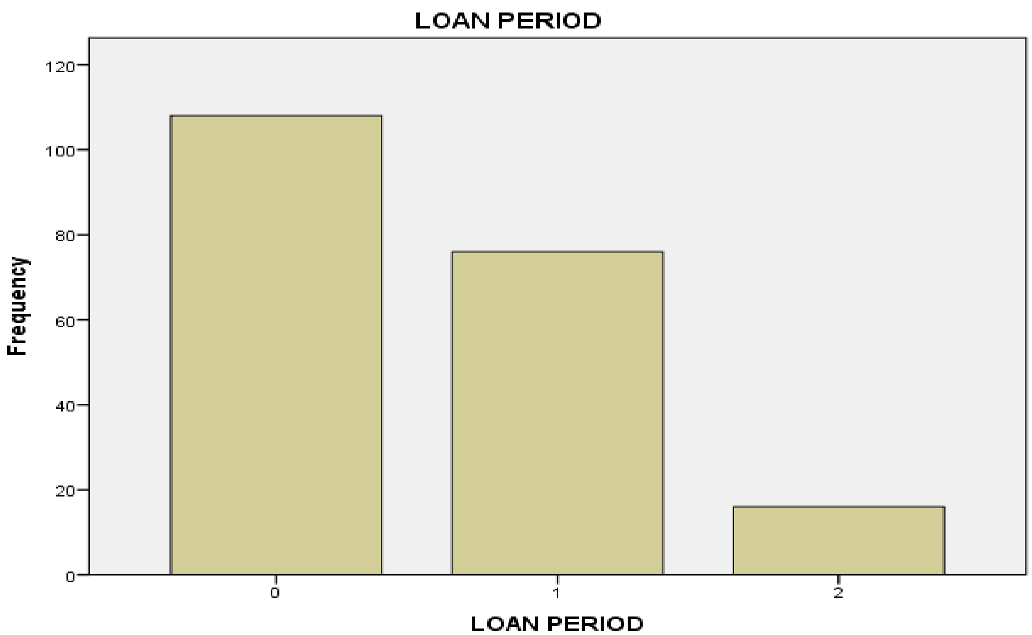
Inference:

From the analysis it can be observed that 42.8% of the households have one room followed by 28.9% having three or more rooms while 27.9% have two rooms respectively.

LOAN PERIOD

Loan Timeline		Frequency	Percent
Valid	0(No Loan)	108	53.7
	1(Six months)	76	37.8
	2(One Year)	16	8.0
	Total	200	99.5
Missing	System	1	.5
Total		201	100.0

Table 7: Loan period



Graph 7: Loan Period

Analysis:

From the Table it can be seen that 108 of the respondents have not taken any loan,76 of them have taken loan for a period of 6 months and the remaining 16 have taken loan for a period of one year.

Inference:

From the analysis it is found that a huge 53.7% have not taken loan, while 37.8% have taken loan for a period of 6 months and the remaining 8% have taken loan for a period of one year.

LOAN CLEARED

Loan Cleared		Frequency	Percent
	1(Not taken Loan)	108	53.7
	2(Not repaid Yet)	47	23.4
Valid	4(Cleared from relatives)	23	11.4
	5(Others)	22	10.9
	Total	200	99.5
Missing	System	1	.5
Total		201	100.0

Table 8: Loan cleared data

Graph 8: Loan Cleared data

Analysis:

From the table it can be seen that 108 have not taken loan,47 of them have not repaid yet,23 have either partially or fully cleared loan of there relatives and 22 have either cleared loan from bank or relatives.

Inference:

From the analysis it can be found that 53.7% have not taken any loan,23.4% have not yet repaid the loan,11.4% have repaid or cleared there loan taken from relatives and the rest 10.9% have either fully or partially cleared loan from banks or relatives or other source

RELIABILITY:

It has been found that Cronbach's alpha is 0.708, which indicates good internal consistency among factors. This means that 70.8% of the variability in composite score is considered to be internally reliable variance.

Cronbach's Alpha	N of Items
.708	27

<u>INTERPRETATION OF THE MODEL FOR SOCIALFACTORS:</u>

REGRESSION:

Linear regression analysis was conducted to determine the impact of Social and Economic factors on financial inclusion.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	Durbin-Watson
					Sig. F Change	
1	.785[a]	.616	.599	.560	.000	2.297

a. Predictors: (Constant), PERCEPTION ABOUT BANK, SIZE OF HOUSEHOLD, No of family members, TYPE OF HOUSEHOLD, APL/BPL/OTHER /NONE, REASONS FOR NOT OPENING BANK A/C, SIZE OF FARM HOUSE/FARM PLOT/GARAGE/RETAIL SHOP/WORK SHED, REASON FOR A/C OPENING

b. Dependent Variable: TYPE OF ACCOUNT

The value of the Durbin-Watson statistic ranges from 0 to 4.

As a general rule of thumb, the residuals are not correlated if the Durbin-Watson statistic is approximately 2, and an acceptable range is 1.50 - 2.50.

The Durbin-Watson statistic for this problem is 2.297 which fall within the acceptable range.

The proportion of variance in the dependent variable (TYPE OF ACCOUNT) explained by the independent variables (PERCEPTION ABOUT BANK, SIZE OF HOUSEHOLD, No of family members, TYPE OF HOUSEHOLD, APL/BPL/OTHER /NONE, REASONS FOR NOT OPENING BANK A/C, SIZE OF FARM HOUSE/FARM PLOT/GARAGE/RETAIL SHOP/WORK SHED, REASON FOR A/C OPENING) (R^2) was 61.6%.

The Multiple R for the relationship between the set of independent variables and the dependent variable is 0.785, which would be characterized as strong using the rule of thumb than a correlation less than or equal to 0.20 is characterized as very weak; greater than 0.20 and less than or equal to 0.40 is weak; greater than 0.40 and less than or equal to 0.60 is moderate; greater than 0.60 and less than or equal to 0.80 is strong; and greater than 0.80 is very strong.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	92.464	8	11.558	36.823	.000[b]
	Residual	57.754	184	.314		
	Total	150.218	192			

The probability of the F statistic (36.823) for the overall regression relationship is <0.001, less than the level of significance of 0.05. We support the research hypothesis that there is a statistically significant relationship between the set of independent variables (social factors) and the dependent variable (financial inclusion).

The tolerance values for all of the independent variables are larger than 0.10. Multicollinearity is not a problem in this regression analysis.

Therefore the estimated model is as below:

Type of Account= -1.324 + 0.126 (No. of family members) + .231 (APL/BPL/OTHER/NONE) + .298 (Type of Household) +.664 (size of household) + .772 (size of farmhouse/retail/garage/workshop) +.223 (reason for A/c opening) + .209 (Reason for not opening bank A/c) + .229 (perception about bank)

Coefficients

Model		Unstandardized Coefficients		t	Sig.	Collinearity Statistics	
		B	Std. Error			Tolerance	VIF
1	(Constant)	-1.324	.400	-3.308	.001		
	No of family members	.126	.060	2.090	.038	.822	1.217
	APL/BPL/OTHER /NONE	.231	.051	4.532	.000	.861	1.161
	TYPE OF HOUSEHOLD	.298	.076	-3.937	.000	.866	1.155
	SIZE OF HOUSEHOLD	.664	.148	4.484	.000	.840	1.190
	SIZE OF FARM HOUSE/FARM PLOT/GARAGE/RETAIL SHOP/WORK SHED	.772	.131	-5.893	.000	.875	1.142
	REASON FOR A/C OPENING	.223	.064	3.481	.001	.978	1.022
	REASONS FOR NOT OPENING BANK A/C	.209	.035	-5.892	.000	.943	1.060
	PERCEPTION ABOUT BANK	.229	.044	5.158	.000	.985	1.015

A. Dependent Variable: Type of Account

For the independent variable **PERCEPTION ABOUT BANK**, the probability of the t statistic (5.158) for the b coefficient is <0.001 which is less than the level of significance of 0.05. We conclude that there is a statistically significant relationship between **PERCEPTION ABOUT BANK** and **TYPE OF ACCOUNT.**

INTERPRETATION OF THE MODEL FOR ECONOMIC FACTOR:

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.437	4	7.859	120.092	.000[b]
	Residual	12.304	188	.065		
	Total	43.741	192			

a. Dependent Variable: TOTAL NO OF ACCOUNTS

b. Predictors: (Constant), LOAN CLEARED, VALUE OF ITEMS IN OFFICE/RETAIL SHOP/GARAGE/WORK SHOP, LOAN PERIOD, VALUE OF HOUSEHOLD ITEMS

The probability of the F statistic (120.092) for the overall regression relationship is <0.001, less than the level of significance of 0.05. We support the research hypothesis that there is a statistically significant relationship between the set of independent variables (Economic factors) and the dependent variable (financial inclusion).

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	Durbin-Watson
					Sig. F Change	
1	.848[a]	.719	.713	.256	.000	2.031

a. Predictors: (Constant), LOAN CLEARED, VALUE OF ITEMS IN OFFICE/RETAIL SHOP/GARAGE/WORK SHOP, LOAN PERIOD, VALUE OF HOUSEHOLD ITEMS

b. Dependent Variable: TOTAL NO OF ACCOUNTS

The value of the Durbin-Watson statistic ranges from 0 to 4.

As a general rule of thumb, the residuals are not correlated if the Durbin-Watson statistic is approximately 2, and an acceptable range is 1.50 - 2.50.

The Durbin-Watson statistic for this problem is 2.031 which fall within the acceptable range.

The proportion of variance in the dependent variable (TOTAL NO OF ACCOUNTS) explained by the independent variables(LOAN CLEARED, VALUE OF ITEMS IN OFFICE/RETAIL SHOP/GARAGE/WORK SHOP, LOAN PERIOD, VALUE OF HOUSEHOLD ITEMS) (R^2) was 71.9%.

The Multiple R for the relationship between the set of independent variables and the dependent variable is 0.848, which would be characterized as very strong as explained above in the interpretation of social factors.

Coefficients[a]

Model		Unstandardized Coefficients		t	Sig.	Collinearity Statistics	
		B	Std. Error			Tolerance	VIF
1	(Constant)	-.167	.039	4.246	.000		
	VALUE OF HOUSEHOLD ITEMS	.258	.000	7.991	.000	.898	1.113
	VALUE OF ITEMS IN OFFICE/RETAIL SHOP/GARAGE/WORK SHOP	.243	.000	-2.050	.000	.925	1.081
	LOAN PERIOD	.397	.071	5.564	.000	.863	1.158
	LOAN CLEARED	.185	.024	7.827	.000	.978	1.022

a. Dependent Variable: TOTAL NO OF ACCOUNTS

The tolerance values for all of the independent variables are larger than 0.10. Multicollinearity is not a problem in this regression analysis.

Therefore the estimated model is as below:

TOTAL NO OF ACCOUNTS = -.167 + .258 (VALUE OF HOUSEHOLD ITEMS) + .243 (VALUE OF ITEMS IN OFFICE/RETAIL SHOP/GARAGE/WORKSHOP) + .397 (LOAN PERIOD) + .185 (LOAN CLEARED)

For the independent variable **LOAN PERIOD**, the probability of the t statistic (5.564) for the b coefficient is <0.001 which is less than the level of significance of 0.05. We conclude that there is a statistically significant relationship between **LOAN PERIOD** and **TOTAL NO. OF ACCOUNTS.**

FINDINGS AND RECOMMENDATIONS

7.1 FINDINGS

The empirical Analysis shows that both economic and social factors play an important role in the financial inclusion. Both the factors have a positive influence in the financial inclusion in Rourkela. The analysis finds that Households belonging to BPL category are mostly excluded from the financial services. Also it was found that perception about bank was found to be really alarming from demand side. There was a negative perception about the bank that they charge high rate of interest in lending. This is the social factors which impacts or we can say act as a major roadblock from getting included in availing the financial services. From the economic factor the primary reason behind taking loan is for Business related activity. The findings also suggest that majority of the respondents have opened their bank account for savings purpose and for availing Government benefits.

7.2 RECOMMENDATIONS

The Indian households can be broadly divided in to two main groups, rural and urban. To have effective financial inclusion, the banks have to always keep in mind these target-groups and bring them to banking fold in such a way that it is a win- win situation for both. Commercial banks can step in to augment financial inclusion in two ways: (i) Providing banking and other related services and (ii) Providing non-banking services and support. To ensure banking services are attractive to those with low incomes, banking products must have features that meet the needs of this group of consumers.

Reserve Bank of India and Government of India is navigating the path to financial inclusion by means of policies and supervision. To remove all obstacles and hurdles in the way of financial inclusion RBI and GoI has taken a lot of initiatives and policy measures These initiatives and policy measures are:-

No-frills Accounts-People in the financially excluded zone find it quite difficult to meet the requirements of normal savings accounts. Recognizing this problem, RBI, in the year 2005, took an initiative and has made it compulsory for the banks to provide no-frills savings accounts without a minimum balance requirement.

Overdraft facilities in saving Account-Banks are providing overdraft (OD) facility in saving account and also Small Overdrafts in No-frills accounts. Banks have been advised and directed to provide small OD in such accounts.

Overcoming language barrier-Large sections of the Indian population are not familiar with English and Hindi, the languages mostly used in bank forms. Banks are therefore required to provide forms pertaining to account opening disclosure etc. in the regional language as well.

Simplified branch authorization-With the objective of facilitating uniform branch growth, RBI has permitted banks to freely open branches in tier III to tier VI centres with population less than 50,000 under general permission consent, subject to reporting (since December 2009).On the other hand, banks can open branches in any centre-rural, semi-urban or urban – in the North-east without applying for permission each time, again subject to reporting.

General Credit Cards (GCCs)-Banks have been advised to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs.25,000/- at their rural and semi-urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated.

Kisan Credit Cards (KCCs)- Kisan Credit Cards to small time farmers have been issued by banks. As on March 2012, the total number of KCCs issued has been reported as 30 million with a total amount outstanding to the tune of Rs.2, 068 billion.

Business Correspondents (BCs) and Business Facilitators (BFs) Model-The Reserve Bank permitted banks to engage BCs and BFs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash-in-cash-out transactions, thus addressing the last-mile problem.

SHG Bank-Linkage Programme-The credit linkage of Self Help Groups (SHG) and Joint Liability Groups (JLG) by Commercial Banks is one of the major initiatives to bring low income poor people into the banking stream. The poor people come together and pool the savings of group and dispense small loans for meeting the individual requirements of members.

Opening of branches in unbanked rural locations-To target excluded section of society in rural locations attention was given to expansion and opening of bank branches in those centres.

Rural Infrastructure Development- Under Rural Infrastructure Development Fund (RIDF), NABARD grant loans to State Governments for the creation of rural infrastructure, broadly under agriculture and related sectors, rural connectivity and social sector.

CONCLUSION

The social and economic factors play an important role in the mission of financial inclusion. There is a need for proper monitoring from supply side to address the problem behind poor financial inclusion. The report suggests that apart from the demand and supply dimension there is another dimension which is forgotten in the process, that is the larger ecosystem within which demand and supply operates. This ecosystem is maintained through effective policies and people friendly administration. Ecosystem of different region and state is shaped by historical incidents, geographical features, economic activities, socio cultural factors, tradition and technology. Combined effect of these factors imparts some unique features to different ecosystems. The policy makers have to make policies considering these unique elements of the different ecosystem. Most of the priority states or region in our country where financial inclusion is below the expectations; it's the lack of sensitivity towards the uniqueness of the ecosystem. Thus to make the mission of 'Financial Inclusion' equitably successful in all the states, need is to synchronize efforts in dealing with demand side and supply side constraint with due consideration to the distinct features of the region.

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ANNEXURE

QUESTIONNAIRE

1. District:	2. Ward/ lane/ road/ slum/ block/ street:
3. Town:	4. Name of head of household:
5. Village name:	6.Household no.:
7. Size of house hold:	

8. To which group do you belong?

1. APL

2. BPL

3. Any other scheme

4. None of the above

9. Principal source of income?
1. Agricultural Farmers
2. Artisans
3. Labourers
4. Self Employed
10. Type of ownership of the house?
1. Rent
2. Self-owned
3. Parental property
11. For how long you have been staying in this house?
1. 1 year
2. 1-3 years
3. < 5 years
4. > 5 years
12. What is the size of your house?
1. 1 room
2. 2 rooms
3. 3 rooms
4.> 3 rooms

13.

Ownership of Assets	
Bedstead or steel / wooden almirah / dressing table other furniture & fixtures radio, record player/tape recorder/ stereo/ musical instruments for television, VCR/VCD, DVD Player, home theatre, multimedia PC other goods for recreation , entertainment and hobby pressure cooker/ household utensils gas/electric oven/ microwave oven electric fan, clock/ watch, water filter / electric iron/ sewing machine refrigerator/ air cooler/ air conditioner/ washing machine other cooking and household appliances and other personal goods other durables	
total value	

15. How big is your farmhouse /garage /retail shop?

1.1 room

2. 2room

3. 3 room

4.____decimel(s)

16. Have you ever taken any credit from your neighbour/relatives/bank/society wholesaler/employer/customer? If yes, what is the amount?

Also state the period of loan amount?

1.______6 months

2. ______1 year

3. ______2 years

4. ______2years and above

17. Are the below mentioned Deposit account used by you in home/office or workshop?

Have you opened the same solely for individual purpose?

1. Normal bank account

2. Postal savings/RD

3. No frills/zero balance account

4. Jan dhan yojana account

5. LIC policy or any other life insurance policy

6. Health insurance

7. Old age pension

8. Auto insurance/property insurance/garage/workshop insurance

9. Bank correspondent account/credit society/micro-finance

10. Any other

18. When and for how many days have you opened the above mentioned accounts?

1.______6 months

2. ______1 year

3. ______2 years

4. ______2years and above

19. What is the number of fixed deposits you have in your house/office/workshop?

1. One

2. Two

3. Three

4. Four

5. More than four

20. What were the reasons that your household opened the account?
1. To receive Govt. payments from NREGP
2. To receive Govt. payments from schemes other than NREGP
3. For receiving remittances
4. For saving money
5. To request a loan
6. If others, (please specify) ___________________________

21. Who helped you to open the account?
1. Village Panchayat Officials 2. Bank Officials
3. Neighbour 4. Friends/Relatives
5. If others, (please specify) ___________________________

22. How frequently do you save in your account?
1. Don't save / never
2. At least once a month
3. Less than once a month
4. I put in money as and when I can
5. I have paid money in but not in past 12 months
6. I have not added money since account was opened
7. If others, (please specify) __________________________

23. Do you find sometimes, necessary to save your household deposits?

1. Business transactions or family needs
2. Govt. scheme benefits
3. Health treatment
4. Migration to other city
5. Not necessary
6. Others____________________

24. Reasons for not having a bank account:

1. I have no money/little money to put in
2. No bank in this area
3. No point - benefits received in cash
4. No point - paid in cash
5. High charges
6. Tried to open but was refused
7. Lengthy processes
8. Not important to me
9. Anticipated rejection
10. If others, (please specify) ______________________________

25. Reasons for being refused a bank account:

1. No ID
2. No job, unemployed
3. Had to have a minimum amount
4. Had debts
5. Don't know - did not say
6. If others, (please specify) ____________________________

26. Why do you think the banks are not trustworthy?

1. Gives low rate of interest on deposits
2. Charges high rate of interest on lending
3. Do not give loans at all
4. Difficult to approach for loans
5. Ask for security deposit by cash
6. Others__________________________

27. If borrowed from sources other than banks, which of the following reasons led to this choice?

1. Being able to borrow relatively small sums
2. I did not need to provide security or guarantees
3. It was available locally
4. I can make repayments in cash in small weekly or fortnightly sums
5. It is convenient because they come to the door to collect
6. It is because I know the lender/collector
7. If others, (please specify) ____________________________

28. If ever borrowed, what was the type of the credit/loan?

1. Housing loan
2. Business Loan
3. Training/Education loan
4. Vehicle loan
5. If personal loan, purpose of the loan ☐ Household items ☐ Computer

- Day to day living expenses or bills
- To pay off other debts
- If others, (please specify) _______________

6. If others, (please specify) ________________________

29. What were the reasons for not availing any form of insurance?
1. Too expensive, can't afford it
2. Just don't bother, no real reasons
3. No need for it
4. I don't have much, nothing valuable
5. I am in process of doing it
6. No insurance men coming to door now
7. Have to have bank account
8. If others, (please specify) ___________________________________