

Financial Inclusion among the Rural Households in Southern Haryana: A Cross-Sectional Study

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Inclusive growth has been a major policy agenda of the governments as frequently reflected in the last two successive five year plans. The existing government's action to connect every individual with banks and banking services through *Pradhan Mantri Jan-Dhan Yojana* is another welcome step in this direction of financial inclusion. The present paper is inspired from this ideological structure of the government and aimed at judging the profiling, awareness and level of degree and penetration of financial inclusion among the rural households in South Haryana. This is a paper based on scheduled survey of selected districts of south Haryana namely Mahendergarh, Rewari and Bhiwani. A financial inclusion index was also developed to know the financial inclusion of different districts under observation.

Keywords: Financial Inclusion; Inclusive growth; Banking; Rural household.

INTRODUCTION

The term “*financial inclusion*” has gained importance since the early 2000s. Most existing studies have concluded that there exists a negative correlation between financial inclusion and poverty. The United Nations defines the goals of financial inclusion as: “*Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance; sound and safe institutions governed by clear regulation and industry performance standards; financial and institutional sustainability, to ensure continuity and certainty of investment; and competition to ensure choice and affordability for clients.*”

The Eleventh Five Year Plan (2007-2012) of India laid its core emphasis on “Inclusive Growth”. As a part of this Inclusive Development Agenda, the study of financial inclusion particularly inclusion of rural population in a state like Haryana which enjoys the status of one of the most developed and growing state in terms of Per capita income, Industrial output, Consumption pattern and Urbanization becomes crucial and specifically if talking of South Haryana which despite being industrially sound seems to be backward as compared to the northern part in terms of the variables mentioned above. Geographically, the area of our research in South Haryana covered three districts namely Mahendergarh, Rewari and Bhiwani. The basic question of this paper was to compute the

level of Financial Inclusion among the rural population of Southern Haryana.

Objectives of the Study

Financial inclusion is not only confined to opening of bank accounts and connecting poor people with banking system but more than that. It is also concerned with delivering these facilities to the masses through creation of productive assets. In view of the above facts, the following objectives were framed to undergo the present paper. The first objective was to examine the financial profile of rural population of Southern Haryana and to know the status of financial inclusion in terms of Bank Penetration, Bank Services and Bank Utilization of three districts in this region. The second objective was to suggest measures to improve availability of financial products to the beneficiaries.

Methodology

In view of the objectives to study the profile of rural population as far as financial inclusion is concerned, three districts were chosen for the study namely; Mahendergarh, Rewari and Bhiwani. A schedule containing 25 questions was prepared and a pilot survey was conducted to modify it. In further pursuance of the objectives of the paper, a random sampling of 300 households in the rural areas of Southern Haryana districts i.e. Mahendergarh, Rewari and Bhiwani was done. Multistage sampling method was adopted to analyze the results. An index of

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financial inclusion to know the degree of inclusion was also developed. The calculation of the financial index was done with the help of the below listed formulas keeping in mind the parameters of Bank Penetration, Bank Services, and Bank Utilization. The following formulas were used in the project:

$$D_i = \frac{A_i - E_i}{M_i - E_i} \text{ \& } FI = \sum_{i=1}^n W_i D_i$$

Where Expected value (E_i) of the dimension 'i' is based on the policy (or standard fixed by the bank) established by the government. Further expected value may be considered different for different economic conditions. Actual value (A_i) is the actual value of any dimension of financial inclusion. M_i is the maximum value of the dimension. Whereas W_i is the weight factor assigned to different variables based on respective importance given to them. D_i is the number of dimensions. FI is financial inclusion index.

Findings of the study

After the schedule was prepared and pilot surveyed, the following observations were made by the researchers. It was observed that about sixty nine percent of the rural population had their own agricultural lands in all three districts of South Haryana. Eighty Five percent of the households had bank account. Most of these rural people under study opened bank accounts for the purpose of savings. Out of the population not having bank accounts, the factor that stopped them from opening a bank account, was not enough income to operate account followed by lack of awareness. In all three districts of South Haryana under study, most of the rural households having bank accounts had their accounts with public sector banks followed by the co-operative banks. There was a negligible presence of post offices as far as financial inclusion was concerned as only Mahendergarh and Bhiwani district had only six percent of rural households having accounts in post offices while rural households in other districts had no accounts in these (Table 2). As far as the knowledge of accounts from various sources was concerned, the factor of *Knowledge from Friends/Relatives* was the most prevalent one.

It was surprising to note from the data analysis that not even in anyone of the districts under study, No-Frills accounts could attract the rural people from

opening their accounts as more than half of the households were not aware of the No-Frills account. The respondents in all the districts under study had a distance of more than one km. between the bank branch and their residences.

Most of the accounts were operated by the male members of the family. Of the respondents having bank accounts about thirty six percent had their accounts for a time period of more than ten years and forty one percent had their bank accounts for a time period ranging from one year to less than five years. Most of the households carried out transactions with the bank on a monthly basis.

About two third of the households having accounts did not avail bank credit. Out of the loans availed, about fifty-four percent household availed agricultural loan or personal loan. About seventy percent of the households availed loans for a period of up to one year. Most of the rural households repaid the loans in instalments.

About sixty five percent of the rural households had an insurance policy and out those having an insurance policy, ninety five percent had life insurance policy. Lack of awareness and dearth of income were the prime reasons for the households for not having any insurance policy. Fifty six percent of the households had a saving in their bank accounts. Sixty eight percent rural households did not know about Direct Credit Transfer. About fifty two percent rural households were not aware about interest rates on loans.

Only sixty seven percent of the rural households had knowledge of ADHAR cards. Sixty percent of the accounts were not linked to the ADHAR cards. There existed a diminutive proportion of households who were members of SHGs (Table 1).

Table 1: District wise percentage of household who are members of SHGs

Districts	Districts wise %age of people (member of SHGs)	Districts wise %age of people (member of SHGs)
Rewari	5	95
Bhiwani	1	99
Mahendergarh	8	92
Total	4.67	95.33

Source: Field Survey

Table 2: District wise percentage of household having fixed deposits in different banks

District	District wise %age of people having fixed deposits in public section banks	District wise %age of people having fixed deposits in private section banks	District wise %age of people having fixed deposits in post office savings	District wise %age of people having fixed deposits with village moneylenders
Rewari	71.42	19.04	4.76	4.76
Bhiwani	81	13	6	0
Mahendergarh	90	4	6	0
Total	80.80	12.01	5.58	1.58

Source: Field Survey

Index of Financial Inclusion

The parameter developed for assessing the level or penetration of financial inclusion among the selected rural population of the three districts was a financial inclusion index based on a formula developed by Mandira Sarma (2006) with a minor modification mentioned in the methodology section of this report. Three broader variables namely Bank Penetration, Bank Services and Bank Utilization were taken and computed under one condition or scenario of weights

assigned to the two variables falling under broader variable i.e. 50-50% each. The expected value had been assumed as 0.60 reflecting moderate level of inclusion. The precision limits for the inclusion index were as under: If the value FI index was between 0.50 to 0.60 then that was a case of moderate inclusion, if it was below 0.50 then lower inclusion and if it was above 0.60 it was safely concluded as higher level of financial inclusion. The results of the calculation have been given in the tables (i.e. 3, 4 &5) below:

Table 3: Financial inclusion based on bank penetration of Southern Haryana.

Sr. No.	Variable	Actual Value (%) (A_i)	Expected Value (%) (E_i)	Weights (W_i)	Value of Dimension i.e. Dimension Index [$D_i=(A_i-E_i)/(M_i-E_i)$]
1.	Deposit Accounts per 2000 population	0.6865	0.60	0.50	0.21625
2.	Credit Accounts per 2000 population	0.0465	0.60	0.50	-1.3838
	IFI _{BP}	$\sum W_i D_i$			-0.5838

Source: Field Survey

Table 4: Financial inclusion based on bank services of Southern Haryana.

Sr. No.	Variable	Actual Value (%) (A_i)	Expected Value (%) (E_i)	Weights (W_i)	Value of Dimension i.e. Dimension Index [$D_i=(A_i-E_i)/(M_i-E_i)$]
1.	Population covered under Savings Account	0.6933	0.60	0.50	0.23325
2.	Population having Fixed Deposits	0.29	0.60	0.50	-0.775
	IFI _{BS}				-0.270875

Source: Field Survey

Table 5: Financial inclusion based on bank utilization of Southern Haryana.

Sr. No.	Variable	Actual Value (%) (A_i)	Expected Value (%) (E_i)	Weights (W_i)	Value of Dimension i.e. Dimension Index [$D_i=(A_i-E_i)/(M_i-E_i)$]
1.	Population having Agricultural Loans	0.16	0.60	0.333	-1.10
2.	Population having Live Stock Loan	0.0367	0.60	0.333	-1.4083
3.	Population provided Life Insurance Cover	0.6767	0.60	0.333	0.1917
	IFI _{BU}				-0.7645

Source: Field Survey

In all districts, this index had shown negative value which was sufficient to indicate that still a lot was needed to be done in South Haryana as the rural population had a negative financial inclusion index as far as Bank Penetration was concerned. Similar observations were obtained for other variables i.e. Bank Services and Bank Utilization.

CONCLUSION

The financial inclusion indices of all the districts had shown negative results and it was concluded that the rural household population of South Haryana was still not included in financial inclusion and a lot of work was required to be done in this direction. The research successfully tried to sensitize the rural population of south Haryana towards their awareness of financial inclusion. Most of the people were not aware of the policies of the government for getting financial accessibility and affordability of financial products and were still dependent on unorganized financial assistance from the local lenders who charged heavy hidden cost of interest. The level or penetration of financial inclusion as far as the parameters of Bank Penetration, Bank Services, and Bank Utilization were concerned it was found to be not satisfactory computed with the help of the FI index. Merely opening accounts is not sufficient to ensure financial inclusion but the operation and utilization of accounts for creation of productive assets is also a necessary condition.

There needs a lot of work to be done in terms of Banks Penetration, Bank Services and Bank Utilization and this is possible only when public sector banks and private sector banks are allowed to operate in rural areas. The awareness campaign needs to be more accelerated and asset creation be made top priority. The status of financial inclusion through co-operative banks has been moderate in one district and lower in

other districts. In view of this, it is suggested that the government must augment the campaign for opening the accounts in these banks and also connect the schemes under their ambit. The inclusion would be intense provided there was a linkage between banks-co-operative banks-micro financing institutions-post offices and the SHGs.

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