

# Financial Inclusion: A Study of Rural Area of Madhya Pradesh

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**Abstract – Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. India is a country where a sizeable amount of population lives in rural areas. They are engaged in agriculture and allied activities. Most of the people living in rural and tribal areas are poor. They do not have any access to the banks. The awareness and access of the poor to the banking services is important for the alleviation of the poverty. The aim is to develop a model of an inclusive financial system, which will support full participation of the neglected and unprivileged section of the society in the financial system. The objectives of the study are to assess the banking habits among the people and to examine the financial services awareness among the households residing in rural area of Madhya Pradesh. After analyzing the facts and figures which were collected from the respondents, it can be concluded that majority of the respondents are attached with bank account but are not well prone to all kind of financial services.**

**Key words:** Financial System, BANK, Financial Services, Financial inclusion.

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## INTRODUCTION

The Government of India and the RBI have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But the lack of awareness and financial literacy among the rural population of the country is hindering the growth of the economy as majority of the population does not have access to formal credit. This is a serious issue for the economic progress of the country. In order to overcome such barriers, the banking sector emerged with some technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking technologies brought a change in the

urban society, a majority of the rural population is still unaware of these changes and is excluded from formal banking. Financial inclusion is a great weapon to overcome the financial backwardness as well as the establishment of good governance. It broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays an essential role in the process of economic development and furthermore, by bringing low-income groups within the parameter of formal banking sector. It protects their financial wealth and other resources in difficult circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money-lenders by facilitating easy access to formal credit. At the same time responsibility and risk for financial decision have a major impact on an individual's future life, particularly poor have limited financial resources, the knowledge of finance related aspects, in such parlance if individual is not financial literate, will not be able to choose the right saving or investment for themselves and may be unable to manage livelihood. It has also been recognized that access to financial services and education has a critical role in reducing extreme poverty, boosting shared prosperity, and supporting inclusive and sustainable development. It is therefore, no surprise that governments around the world are interested in finding effective approaches to

improve the level of financial literacy amongst their population and that many are in the process of creating and implementing a national strategy for financial education to provide learning opportunities throughout a person's life. Therefore, financial literacy needs to be embedded in way of life that will promote inclusive growth of country.

Financial inclusion may be defined 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 (Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). Financial inclusion, according to the Finance Minister's 2006-07 budget speech, was defined as "the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost". Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan).

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.

## REVIEW OF LITERATURE

The wide variety of literatures both of academic and non-academic nature are available on the different aspects of the topic discussed in the paper. However, only a few major literatures have been covered here to provide a comprehensive idea about the research trends on the different dimensions of current research.

**Verma & Garg (2016)**, study made an attempt to find out the level of influence of Pradhan Mantri Jan Dhan

Yojana by analyzing the effectiveness of the financial literacy program and awareness towards the scheme. The study was carried on the workers of Central University of Rajasthan and villagers of Bandrasindri village in Ajmer district of Rajasthan. The primary data was collected in the form of discussions held with respondents for the period of 2015. Findings of the study suggested that there is a long way, which needs to be covered to mitigate financial untouchability in actual sense.

**Kaur & Singh (2015)**, research attempts to study the recent trends in Financial Inclusion in India with special reference to Pradhan Mantri Jan Dhan Yojana (PMJDY), highlighted action plans and its key areas. Study revealed that till (31-12-2014) 819.09 lakhs account has been opened which comprises 496.97 lakhs from the rural and 332.13 lakhs from urban areas of country. Study also suggested strategies that opening bank account procedure should be simplified to ensure maximum Financial Inclusion for the underprivileged and unbanked areas. The widely acknowledged & successful launch of the PMJDY scheme also strengthens the resolves that, when coordination, dedication, opportunism, commitment, formalization, dependence, trust, satisfaction, cooperation and continuity is provided by all the constituents and stakeholders, a framework of construct is created which acts as a dominant force for accomplishment of the mission.

**Monalisa (2015)**, study analyzed the extent of Financial Inclusion in the rural areas of district Hisar and suggested some measures to speed up the process of Financial inclusion. It also highlighted the problems faced by the respondents in the selected sample with the present banking system and suggestion given by them to tackle the problems. The sample size consists of covering 367 respondents. The methodology used in the research for selecting a respondent as a sample is convenient and random sampling. The study found that 65.67% households of rural areas of district Hisar have been financially included.

**Guha (2015)**, study highlighted the present scenario of Pradhan Mantri Jan Dhan Yojana and also explained the role of the government, banks and the Business correspondent in the implementation of Pradhan Mantri Jan Dhan Yojana. Results indicate that PMJDY scheme has shown substantial growth in numbers as far as opening of accounts is concerned. As against the target of 7.5 crores new account a whopping 1.6.57 crores account has been opened till 1st July 2015 it's a huge achievement but requires more steps to be taken to improve the transactions made in these accounts to accomplish the objective of alleviating poverty, enhance savings, reduce leakages in economic system by facilitating direct transfer of subsidy benefits to the poor.

**Kunthia (2014)**, The research paper has attempted to study the recent developments on Financial

Inclusion in India with special reference to the recently launched "Pradhan Mantri Jan-Dhan Yojana (PMJDY)". The researcher has presented an analysis of its different important areas, the roadblocks in the process and has suggested strategies to attain universal coverage of the PMJDY for the underprivileged population and the large unbanked areas of the country.

**Kumar** (2014), examined the Financial Inclusion, its current position in India and the obstacles in the path of Financial inclusion with suggestive measure to overcome them. Study expressed that in 2009 total number of schedule commercial banks branches which were 15273 increased to 19327 in 2013, average population per bank branch in 2013 was 12,100 which is also increasing tremendously in last ten years. Total Number of ATMs in country in 2013 was 114014. The Results of the study indicate that still majority of Indian people are facing problem of financial exclusion, factors behind this are- illiteracy, unemployment, lack of awareness, non-availability of banking services at local level. Research suggests that govt. should enhance financial services in rural areas of country by establishing Business correspondents, organizing awareness camps etc.

**Shabna** (2014), discussed about the conceptual aspects of financial inclusion and point out the reasons for financial exclusion. It also highlighted the measures taken by RBI for promoting financial inclusion; Study is based on secondary data collected from different publications, journals, and newspapers and websites. Government of India and Reserve Bank of India has taken various initiatives like opening of no-frills accounts, relaxation on know-your-customer norms, engaging business correspondents for promoting financial inclusion.

**Anamatai and Vijayarani** (2014), examined the financial inclusion services provided by the banks and its awareness among the tribal people of Dharmapuri district of Tamilnadu. The study taken sample size 639 from the households. The study reveals that the maximum (70.per cent) of the respondents are open an account and (30.0) respondents have no bank account. Maximum (52.9 percent) of respondents having no awareness and Majority (38 percent) of respondents are using of zero balance accounts for getting MGNREGS wages.

**Shastri** (2014), The paper analysed various magnitude of financial inclusion & experiences drawn from primary survey of households in selected villages of financially backward state of the country (Madhya Pradesh) to investigate how financial inclusion operates and what causes its success or otherwise. The paper also provides perceptions into the nature of exclusion. The study has critically analyzed the issues and a challenge involved in financial inclusion for inclusive growth and has also successfully attempted

to highlight the factors that can aid in achieving financial inclusion for inclusive growth. The paper is a significant attempt to understand and emphasize the importance of the topic. The objective of the paper is to study financial inclusion in rural areas of Ujjain District (Madhya Pradesh), reasons for low inclusion and satisfaction level of the rural people toward banking services. The results indicates that It is observed that out of 1.10 surveyed respondents 71% are having bank account 29% of the respondents are not having the bank account. There is no significance impact of the rural public's gender on their having the bank account.

**Shreekutan** (2014), studied the Chavara block, which is a rural backward area. Majority of population have engaged in traditional industries like- coir, fishing for livelihood. Cooperative bank play vital role in achieving the goal of Financial inclusion. Study made an attempt to evaluate the impact on Financial inclusion through cooperative banks such credit facilities, banking facilities etc. available to them or not. For finding out the impact study covers 140 sample size based on judgmental sampling, result indicated that majority of people are satisfy with bank services, staff behavior but dissatisfaction is from poor infrastructure in cooperative banks. Research suggests that cooperative banks should tie up with Non-Government Organization (NGOs) and Self-Help Group (SHGs) for more promotion of Financial inclusion in area. Hi

**Daniel et al.** (2014) conducted a meta-analysis of the relationship of Financial Literacy and financial education to financial behaviors in L68 papers covering 201 prior studies. It found that intervention to improve Financial Literacy explains only 0.1% of the variance in financial behaviors studied, with weaker effects in low-income samples, like education, financial education decays over time; even large interventions with many hours of instruction have negligible effects on behavior 20 months or more from the time of intervention.

## RESEARCH DESIGN

The study is based on descriptive research design; non-probability convenience judgmental sampling has been used. In the sample, 120 households (family decision makers) residing in rural area of M.P. The primary data collected through interview schedule from the household decision makers residing in the rural area of M.P., and secondary data sources used for developing theoretical base for both research report and questionnaire design. It includes books, journals, web sites, newspapers and official reports of the Indian Government and RBI from time to time.

## OBJECTIVES OF THE STUDY

The present study is based on the following objectives:

- To study the banking habits among the people.
- To examine the awareness level of people about financial products and services.

## RESULT & ANALYSIS

This section deals with analysis of data by using descriptive statistical tools. The result and analysis of the study is being discussed in the following sub-headings:

### Demographic Characteristics

The total numbers of responses were 89 and out of these 52% male and 48% female which further indicates that there is not much literacy rate in the area, around 13% people are near to the graduation level, whereas, major portion of the population is having primary education which cannot be taken as standard level of education. In a way the position is pliable in the area. The major portion of the population consists of tribal people as in the sample study indicates that around 46% belong to ST & SC community. By profession, 35% of the respondents form the farmer group and 28% are daily wage earners, whereas, 16% are small businessmen who are involved in petty business activity and the salaried person are 11%. The data reflects that, farming and daily wage earners are only the source of their livelihood which further supports the low literacy level and low income. It is derived from the monthly income variable that, 64% of the respondents are earning income below Rs. 5000, 29% fall in the income group Rs. 5000-10000 and Rs. 10000 & above are 7%. The overall economic scenario depicts that maximum of the households get income by engaging themselves with daily wage earner, farmers and involved with MNREGA scheme which hardly fetches them a two square meal.

**Table 1: Demographic Characteristics**

Literacy		Profession		Income		Caste		Card		Gender	
Illiterate	31	Farmer	35	Less Than 5000	64	SC	15	BPL	35	Male	52
Upto fifth	30	Businessmen	16	5000 - 10000	29	ST	31	APL	65	Female	48
Upto 10th	26	Job	11	10000 - 15000	5	OBC	34				
Graduation	7	Daily Wages	28	15000 & above	2	General	20				
PG	6	Others	10								
	100		100		100		100		100		100

Source: Computed (Figures are in Percentage)

The household belonging to BPL category is 35% and rest 65% belong to APL group. It has been observed during the survey that BPL cardholders are also belong to the higher income group by giving the fictitious information and get the BPL card to get the benefit of the government ongoing schemes. Such

practices need to be operated with effective and timely measure of governance so that the real beneficiary may be favored in the right sense of the economic scheme.

## BANKING HABITS

As per the study, financial awareness and banking services inclusion only 72% are having their bank account among which 52% bank account were already opened before the launching of PMJDY an ambitious scheme. This scheme leads to an increase in 48 % bank accounts which is an impetus to the financial Inclusion. In a way, people have become oriented with the scheme as well. MNREGA and subsidies arising out of various government schemes are found to be main motives in opening bank accounts at large scale which has been confirmed by the data analysis as well as personal interaction during collection of data. The PMJDY has played a significant role in motivating the residents of rural Madhya Pradesh region in opening bank account within a short span of time. The results obtained for the period of association with various financial/banking services under different segments of time period shows that, majority of the respondents (33%) are associated with services less than one year, 26% between 1-3 years of time and 18 % of the respondents associated between 3-5 years. All these indicators confirm moderate level of banking inclusion in the region and it implies that majority of the respondent are financially included recently. Network of bank branches in the area reflects that there is requirement of opening more banking branches. The study reflects that 42% respondents are not having bank branches in their locality within 4 km distance from their residence.

**Table 2: Banking Habits**

Bank Account	No. of Respondents	Percentage
Having Bank Account	64	72
Not Having Bank Account	25	28
<b>Total</b>	<b>89</b>	<b>100</b>
<b>When the Bank Account Opened</b>		
Before PMJDY	33	52
After PMJDY	31	48
<b>Total</b>	<b>64</b>	<b>100</b>
<b>Reason for Opening a Bank Account</b>		
Depositing Money and taking loan	28	
Availing Subsidies from Government	30	
Receiving Remuneration from MNREGA	47	
DD / Cheque	20	
<b>Distance of nearest Bank Branch from your residence</b>		
Less than 2 Km.	26	29
Less than 4 Km.	25	28
Less than 6 Km.	18	20
Above 6 Km.	20	22
<b>Total</b>	<b>89</b>	<b>100</b>
<b>Period of Association with Banking services</b>		
Below 1 year	30	33
1-3 year	23	26
3 - 5 year	16	18
5 and above	20	23
<b>Total</b>	<b>89</b>	<b>100</b>



Source: Computed

### Awareness Level of Financial Products & Services

The awareness of financial services among the households in the area lies at an average level. Only a few services like deposit account, loan facility, life insurance and cattle insurance are commonly popular as per the administration of descriptive statistical tools like mean, standard deviation. The result as shown in the table 3 has variation in terms of awareness in some of the financial services like Mobile Banking, Lockers Facility, Cattle insurance, housing loan, Tax services etc. However, the remaining services have variation but not that much variation to mention. Looking to the results in table 3 it is rightly inferred that the households are having low awareness of financial services.

**Table 3 Awareness Level**

S. No.	Services	Mean	Standard Deviation
1	Deposits (Saving Account, Current account, RD, FD)	3.43	1.059
2	Granting loans	2.93	1.139
3	Drafts	1.69	1.18
4	Mobile Banking	1.81	1.252
5	ATM	2.39	1.428
6	Pension services	1.68	1.189
7	ECS Facility	1.46	0.897
8	Online Banking	1.69	1.383
9	Lockers Facility	2.06	1.41
10	Education loans	1.7	1.105
11	Life Insurance	2.36	1.256
12	Crop insurance	2.18	1.216
13	Accidental insurance	2.12	1.304
14	Cattle insurance	2.42	1.3
15	Mutual Fund Services	1.34	0.845
16	Investment Advice	1.47	0.97
17	Housing loan	1.73	1.186
18	Tax collection	1.48	0.979
19	Fund transfer	1.43	0.905
20	Demat Services	1.38	0.891
21	Credit card facilities	1.32	0.852
22	Micro finance	1.31	0.818

### MAIN FINDINGS

Findings based on the objectives of the study and different variables taken into consideration regarding financial services and financial inclusion scheme are being highlighted as below;

It is derived from the monthly income variable that, 64% of the respondents are earning income Rs. below 5000, 29% fall in the income group 5000-10000 and Rs. 10000 & above are 7 %. The overall economic scenario depicts that maximum of the households get income by engaging themselves with daily wage earner, farmer and involved with MNREGA scheme which hardly fetches them a two square meal.

The household belonging to BPL category is 35% and rest 65% belong to APL group.

Looking to the financial awareness and banking services inclusion only 64% are having their bank account.

MNREGA and subsidies arising out of various government schemes are found to be main motives in opening bank accounts at large scale which has been conform by the data analysis as well as personal interaction during collection of data. Also, PMJDY has played significant role in motivating the residents in opening bank account which carries 40% of the bank account within a short span of time.

The results obtained for the period of association with various financial/banking services under different segments of time period shows that, majority of the respondents (36%) are associated with services less than one year, 26% between 1- 3 years of time and 18 % of the respondents associated between 3-5 years.

Overall awareness of financial services in the area lies at an average level. Few services like deposit account, loan facility, life insurance and cattle insurance are commonly known to the households.

### CONCLUSIONS

Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is the biggest challenge in a country like India. Bringing millions of people living in rural India into the mainstream is the biggest concern. The challenge is to take the levels of growth to all section of the society and to all parts of country. The Government of India and the Reserve Bank of India have been making concentrated efforts continuously since independence by promoting "Financial Inclusion" being one of the important national missions to promote inclusive growth of the country. Financial inclusion is a great weapon to overcome the financial backwardness, constraints and tries to establish good governance. Keeping in view the theme of financial inclusion, the study undertook the area which was more rationale for the study purpose. It is also a bare fact that the rural areas have been deprived of the basic amenities and necessities, therefore, people residing in this area

remained economically as well as socially backward. The study was undertaken to know the reach of financial inclusion, their banking habits and attachments with banks. It is concluded from the results obtained from the study that majority of the households have bank account due to the reason that the remuneration under MNNREGA Programme and subsidies arising from the government plans is paid through the individual bank account of the beneficiaries. The association of households with the banking services and bank branches reflects an increasing trend. However, overall financial awareness and access in the area is found to be very less as the households are using only basic deposits account, loan facility, life and cattle insurance, whereas the other services like net banking, mobile banking, mutual funds, micro finance etc. are having less aware among the population. The main reason behind such reflections are due to lack of education, less family income and lack of formal financial institutions in rural and remote areas. There is need to address the issues like education, income, financial literacy, bankers co-operation and customer relationship management, etc. at the top priority so that the general mass may be included in the mainstream of financial inclusion.

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