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Financial Inclusion and Actual Use of Financial Services by the Poor in India

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Abstract

The Pradhan Mantri Jan Dhan Yojana (Prime Minister People Money Scheme) created a record opening up of bank accounts in India in a very short span. The utility of the bank accounts is great for the financial inclusion and which was demonstrated across India in various ways. However, there are some concerns on the utilisation of the bank accounts, as some studies pointing out the dormant bank accounts and overburden on the banking system with large number of accounts with little or no transaction for a longer period. There is also a case of using the wide post office network for the financial inclusion, which are reachable to every villager without any cost to government as well as the beneficiaries. This study focuses on the utilisation pattern of the post office and bank accounts in India by using the Global Findex data collected by the World Bank in year 2011 and draw some lessons on how to increase utility of the bank accounts to general public without excessively burdening the banking system. The sample drawn is nationally representative with the sample size of 3518 adult members 1837 male and 1679 female. We find that post offices are relatively more likely than traditional banks to provide accounts to individuals who are most likely to be financially excluded such as the poor, less educated and those out of the labour force. Even though over all use of the bank accounts is low, they play a greater role in increasing savings habits and likely to play a greater role in direct cash transfer under different government welfare programmes.

Keywords: *Pradhan mantri jan dhan yojana*, global findex, world bank, financial inclusion

A vast segment of India's population exists on the margins of India's financial systems. A huge number of populations of vulnerable groups such as weaker sections and low income groups are unable to access to financial services and timely and adequate credits. In this regard financial inclusion is an important priority of the country in terms of economic growth and development of society. It will enable hundreds of millions of low-income people to improve their social and economic status by participating in the financial system. Likewise, in a laudable move, the new government of India has made financial inclusion a key objective of the country. The Finance Minister Shri Arun Jaitely, in his budget speech for 2014-15, laid out a specific set of targets to provide for financial accounts to every household by August 2015. This ambitious target set the tone as well as highlighted the importance of attaining it within a specified timeframe. Taking the ambition further, in his maiden Independence Day speech, the Prime Minister announced the Pradhan Mantri Jan–Dhan Yojana (PMJDY) with an objective of opening no-frills bank accounts. The PMJDY was launched immediately after this announcement on August 28, 2014. On the inauguration day itself, 1.5 crore bank accounts were opened. By March 31, 2015, the figure multiplied to 14.71 crore in India. This must be recognised as a remarkable achievement. However among them about 8.52 crores (58%) are with zero balance.

Just about a year ago, the RBI renewed its financial inclusion mandate with the formation of the Mor Committee on Comprehensive Financial Services for Small Businesses and Low Income Households in September 2013. The committee, whose objective was to provide a clear vision for financial inclusion, prepared a report highlighting key areas of concern. The recommendations of the committee included provision of bank accounts to all citizens, setting up state finance regulatory commissions and creation of a new entity in the financial system - payment banks. The recent policy measures undertaken by the Government and RBI have provided a much needed push for financial inclusion in the country. However, there remain some key gaps and concerns that must be addressed for attaining sustained comprehensive financial inclusion, especially of the low income population. There are some concerns on the utilisation of the bank accounts, as some studies pointing out the dormant bank accounts and overburden on the banking system with large number of accounts with little or no transaction for a longer period.

There is also a case of using the wide post office network for the financial inclusion, which are reachable to every villager without any cost to government as well as the beneficiaries. Here we can see a critical look between the post offices and commercial banks in the role of financial inclusion as despite taking various initiative from the part of government, RBI and commercial banks the banking sector in India has so far not been able to provide complete coverage in the country especially in the rural areas. There are 171 commercial banks in the country. Out of the 93,080 Commercial Banks branches only 36.10% are in rural areas and 24.76% in semi-urban areas. All India average population served by per branch is 13,503. On the other hand, out of 1.55 lakhs Post offices, 89.8% i.e. 1.39 lakhs are in rural areas covering a population of 5,682 per post office in rural areas and 20,346 in urban areas, on an average 7,176 people are served by one post office as on March 2011. On an average, a post office serves an area of 21.23 sq. k.m. Further, only 5% of 6 lakhs villages have bank branches. Other than banking and other financial institution the Indian post which partially do banking activity under the ministry of finance is doing a commendable job towards providing easy financial services to the people throughout the country especially in the remote areas through its huge network. It is become more important when this country has the largest postal network in the world with 1,54,866 post offices at the end of 2011. The Post Office Savings Bank (POSB) is one of the biggest savings banks in India. It collects savings from all corners of the country. The savings collected by the POSB play an important role in view of capital formation in the Indian economy. Moving in this direction, now the Indian Postal Department is planning to start a bank, to be tentatively called the Post Bank of India (PBI). The India Post already provides various financial services including a Post Office Savings Bank, Postal Life Insurance, Pension, Payments and Money Transfer Services. Indian postal department is proposing a capital investment of Rs.1,000 crore for the bank. It will be set up as a subsidiary with the postal department holding a 51% stake in it. It also intends to rope in major public sector banks like the State Bank of India to pick up a 25% stake in the new venture. Of the remaining equity, 5% will be offered to employees of India Post and the rest will be offered to the public. The proposal to set up the Post Bank of India is under consideration in the Department. However, at present it is at conceptual stage. The PBI has to be set up soon to facilitate the inclusive growth.

However, despite the huge role of post office in financial inclusion policy makers are not giving due priority to the development of postal financial services in the rural and underdeveloped areas in India. Many governments have undervalued their postal savings institutions both as financial and social-economic assets (Scher M, 2001). While Rajan and Zingales (2003) reveals that the development of the financial system contributes to economic growth. Whereas Srinivasan and Lakshmi stated that for India Post, there is no alternative than to leverage its infrastructure, trust, and related services into a much larger role in e-commerce and e-government. Against this back drop, this study focuses on the utilisation pattern of the post office and bank accounts in India by using the Global Findex data collected by the World Bank in year 2011 and draw some lessons on how to increase utility of the bank accounts to general public without excessively burdening the banking system. The sample drawn is nationally representative with the sample size of 3518 adult members 1837 male and 1679 female.

Data and Methodology

Our data on account ownership come from the first round of the Global Findex database pertaining to India. The Global Findex data were collected over the calendar year 2011 by adding a questionnaire on financial inclusion to the annual Gallup World Poll. The 2011 World Poll surveyed at least 1,000 individuals in 148 economies using randomly selected, nationally representative samples. The target population is the entire civilian, non-institutionalized, adult population (age 15 and over) in each country. The questionnaire includes a question on ownership of an individual or joint account at a formal financial institution. In our sample, we have picked up the data for only India comprising 1837male and 1679 female. The Global Findex data allow us to distinguish between three types of account ownership: an account at a financial institution only, accounts at both a financial institution and the post office, and an account at the post office only.

Analysis

Access to financial institutions, debit and credit cards

Total use of financial service among poor is much more in case of male as compared it with female. 45% of the male has an account at a financial institution and only 29% in case of female. The access of debit and credit card in case of male, is 16.30% and 3%, whereas, in female it is only 6.7% and 1.5% respectively (Table 1.). The main reason which can be concluded is the high rate of employment among male as compared with female.

Table 1. Account details of the persons

Gender	Has an account at a financial institution (%)	Has an account at a financial institution/post office/MFI (composite indicator) (%)	Has an account at a post office (%)	Has a debit card (%)	Has a credit card (%)	Sample
Male	45	50.50	10.50	16.30	3.00	1839
Female	29	31.20	6.10	6.70	1.50	1679
Total	37	41.30	8.40	11.7	2.30	3518

Table 2. Account and debit card status among different income groups

Income group	Gender	Has an account at a financial institution/post office/MFI (composite indicator) (%)	Has a debit card (%)
Poorest 20%	Male	24.80	2.90
	Female	20.20	2.40
	Total	22.50	2.60
Second 20%	Male	44.50	9.60
	Female	25.80	2.20
	Total	35.40	6.00
Middle 20%	Male	59.60	14.80
	Female	28.40	5.20
	Total	44.80	10.20
Fourth 20%	Male	55.40	20.00
	Female	35.30	7.60
	Total	46.40	14.40
Richest 20%	Male	73.70	36.90
	Female	51.70	19.30
	Total	63.60	28.80
Total	Male	50.50	16.30
	Female	31.20	6.70
	Total	41.30	11.70

From table 2 it can be depicted that the lowest income group i.e. poorest 20%, have lowest percentage of account at a financial institution/ post office/ MFI and it goes same in case of debit card i.e. 24.8% in case of male and 20.2% in case of female. As moving ahead from the lowest 20% income group to second 20% to middle 20% and finally to the richest 20% the figure keep on increasing. As in middle 20% income group 59.6% of male are using different financial services provided by the government and only 28.4% in case of females. From the richest 20% income group, it is 73.7% of males are obtaining the benefits and only 51.7% in females. In the debit card usage, the figures are again very less in lowest income group and it increases as move forward to richest income group.

The main reason for the disparity in the usage of financial service among different income group is lack of awareness and knowledge among poor section of the society due to which they can sometimes hesitate and also ignore in visiting banks. It can also be noticed that the percentage of male is higher in obtaining benefits of financial service as compared it with female, because of lack of employment among female section due to which the source of income is very less.

Table 3 depicts relationship between education level and usage of account at different financial sectors. As this can be seen that education level and usage of

Table 3. Account status by education level

Gender	Education level	Has an account at a financial institution/post office/MFI (composite indicator)- yes (%)
Male	completed primary or less	39.60
	Secondary	55.60
	completed tertiary or more	83.30
	Total	50.50
Female	completed primary or less	23.90
	Secondary	41.20
	completed tertiary or more	62.30
	Total	31.20
All	completed primary or less	31.10
	Secondary	49.80
	completed tertiary or more	75.80
	Total	41.30

Table 4. Account status and age group

Gender	Age group	% of persons who has an account at a financial institution/post office/MFI
Male	Young (15-24 years)	34.00
	Aged (25-64)	56.60
	Old (more than 65)	51.30
	Total	50.50
Female	Young (15-24 years)	26.70
	Aged (25-64)	32.90
	Old (more than 65)	28.60
	Total	31.20
All	Young (15-24 years)	30.60
	Aged (25-64)	45.10
	Old (more than 65)	41.30
	Total	41.30

Table 5. Bank account related information

		Male	Female	Total
If has account: purpose of account	Personal transactions	83.2	90.6	85.9
	Business purposes	4.6	4.6	4.6
	Both	10.7	3.3	8.0
If has account: number of monthly deposits into account	Nil	12.1	10.5	11.5
	1 - 2 times	69.0	76.1	71.6
	3 - 5 times	14.5	9.4	12.7
	6 times or more	1.5	0.4	1.1
If has account: number of monthly withdrawals from account	Nil	11.9	17.4	13.9
	1 - 2 times	67.9	66.6	67.4
	3 - 5 times	13.1	8.0	11.3
	6 times or more	3.0	3.8	3.3
If has account: most frequent mode of cash withdrawal	At an ATM	26.5	17.9	23.4
	Over the counter in a branch of your bank or financial institution	66.3	68.1	67.0
	Over the counter at a retail store, or	1.2	2.9	1.8
	From some other person who is associated with your bank or financial institution	2.3	3.8	2.8
	(do not withdraw cash)	1.7	5.3	3.0
If has account: most frequent mode of cash deposit	At an ATM	2.5	1.1	2.0
	Over the counter in a branch of your bank or financial institution	91.0	87.9	89.9
	Over the counter at a retail store, or	1.0	3.4	1.9
	Using some other person who is associated with your bank or financial institution	2.4	4.4	3.1
	Do not deposit cash	1.1	1.3	1.2
If has account: uses checks		26.4	18.7	23.6
If has account: uses electronic payments		5.8	5.0	5.5
If has account: uses it to receive work payments		24.9	20.4	23.3
If has account: uses it to receive gov't payments		11.0	11.8	11.3
If has account: uses it to receive money from family		6.0	3.6	5.2
If has account: uses it to send money to family		5.1	3.2	4.4

Table 6. Reasons for not having bank account (for persons who don't have account)

	Male	Female	All
If does not have account: b/c too far away	23.6	21.7	22.5
If does not have account: b/c too expensive	24.0	23.1	23.5
If does not have account: b/c lack documentation	17.5	15.3	16.3
If does not have account: b/c lack trust	7.8	8.8	8.4
If does not have account: b/c lack of money	66.5	56.7	61.1
If does not have account: b/c religious reasons	7.0	8.1	7.6
If does not have account: b/c family member already has one	34.6	49.7	43.0

financial service are positively related. From above it can be concluded that only 39.6% of the male who have completed primary or less level of education have accounts where as 83.3% of male that have completed tertiary or more level of education have accounts in different financial sectors. Same goes in case of female, as it can be seen that 23.9% of female who have completed primary or less level of education have accounts where 62.3% of female that have completed tertiary or more level of education have accounts in different financial sectors. So it can be concluded that more of education level leads to more level of income and thus it results in more usage of financial service.

Table 4 depicts relationship between age group and usage of account at different financial sectors. As can be seen that among male, 34% men of age group between (15-24 years) have their account, 56.6% men of age group between (25-64 years) have their account whereas 51% men of more than 65 years of age have their account. In case of female 26% women of age group between (15-24 years) have their account, 32.9% women of age group between (25-64 years) have their account whereas 28.6%

Table 7. Savings behaviour of the households

	Male	Female	All
Has saved money in the past 12 months	33.1	20.8	27.2
If saved: saved for future expenses (education, wedding)	77.6	74.0	76.3
If saved: saved for emergencies	81.4	79.1	80.6
If saved: saved at a financial institution	62.7	44.0	55.8
If saved: saved using a savings club	12.3	12.9	12.5

Table 8. Borrowing behaviour of the households

	Male	Female	All
Borrowed money from financial institution in past 12 months	8.9	6.9	8.0
Borrowed money from a store (store credit) in past 12 months	6.8	6.3	6.6
Borrowed money from family or friends in past 12 months	19.8	17.3	18.6
Borrowed money from employer in past 12 months	5.2	4.7	4.9
Borrowed money from another private lender in past 12 months	6.5	6.4	6.5

Table 9. Purpose of loan

	Male	Female	All
Currently has loan for home purchase	2.3	2.6	2.4
Personally has health insurance in addition to national insurance	13.8	13.1	13.4
If has insurance: has personally purchased insurance	62.8	55.9	59.6
If ag worker: has personally paid for crop/rainfall/livestock insurance	7.5	5.5	7.0
Currently has loan for home construction	4.3	3.5	3.9
Currently has loan for school fees	4.8	6.3	5.5
Currently has loan for emergency/health purposes	14.6	12.7	13.7
Currently has loan for funeral/wedding	3.3	3.8	3.5
Has used a mobile phone to pay bills in past 12 months	4.1	1.5	2.9
Has used a mobile phone to send money in past 12 months	1.1	0.5	0.8
Has used a mobile phone to receive money in past 12 months	2.4	2.3	2.4

women of more than 65 years of age have their account. So from this data it can be concluded that people of age group between (25-64 years) have the highest percentage as compared with other groups. The main reason behind this could be that this age group have the highest number of working population due to which they are in much more need of financial services.

Utilisation pattern of bank accounts

Table 5 shows the people's purpose of having account. In case of male 83.2% and female 90.6 % use account mainly for personal transactions. Only 10.7% male and 3.3% female use account for both personal transactions and business purposes. No. of monthly deposits (1 - 2 times) into accounts In case of male and female are 69.0% & 76.1 % respectively. Number of monthly withdrawals from account (1 - 2 times) In case of male and female are 67.9% &66.6 % respectively. : Most frequent mode of cash withdrawal or cash deposit is over the counter in a branch of bank or financial institution. Use of checks, electronic payments and ATM is very less.

Reasons for not having bank account

The table 6 shows the reasons why people don't have back account. In case of male 66.5% of men do not have bank account due to lack of money , 34.6% due to other family member already has one, 24% due to too expensive and 23.6% due to banks too far away. In case of female the picture is same 56.7% of women do not have bank account due to lack of money, 49.7% due to other family already has one, 23.1% due to too expensive, lack of trust, religious reason, lack of documentation are also some reasons. So at last it can be concluded that, the main is lack of money, so income and usage of bank account both are positively correlated.

Savings behaviour of households

The table 7 shows the saving behaviour of the households. If both male and female are considered 80.6% of people save money mainly for emergencies, 76.3% of people save for future expenses (like education, wedding), 55.8% saved at financial institution and 12.5% saved using a saving club. So, the main reason for saving is to meet future emergencies and also to cover future unexpected expenses.

Borrowing behaviour of the households: The table 8 shows the borrowing behaviour of the households. If the overall picture of 12 months is considered it can be seen that 18.6% of people borrowed money from family or friends, 8% of people borrowed money from financial institutions, 6.6% of people from store credit, 6.5% from private lenders and 4.9% from their employer. So, most percentage of people borrow money from their friends and relatives, this shows that poor people or people in socially backward area today also hesitate or reluctant in using the loan or lending facility. The main reason could be lack of knowledge of proper documentation.

Purpose of loan

Table 9 shows why people tale loans. By taking the overall picture of both male and female it can be seen that 59.6% of people take loan to purchase insurance, 13.7% to meet the emergencies and health purpose, 7% to meet the agricultural needs, 5.5% for school fees. 2.9% of people used mobile phone to pay bills, 0.8% to send money and 2.4% to receive money.

Conclusion

The Jan Dhan Yojana created a record opening up of bank accounts in India in a very short span. The utility of the bank accounts is great for the financial inclusion and which was demonstrated across India in various ways. However, there are some concerns on the utilisation of the bank accounts, as some studies pointing out the dormant bank accounts and overburden on the banking system with large number of accounts with little or no transaction for a longer period. This study focuses on the utilisation pattern of the bank accounts (both including bank accounts and post office accounts) in India by using the Global Findex data collected by the World Bank in year 2011 and draw some lessons on how to increase utility of the bank accounts to general public without excessively burdening the banking system. We find that post offices are relatively more likely than traditional banks to provide accounts to individuals who are most likely to be financially excluded such as the poor, less educated and those out of the labor force. Overall, our results suggest that post offices can play an important role in advancing financial inclusion. Leveraging their existing postal network infrastructure may be one of the ways that developing countries can use to address the financial inclusion challenges they face (Anson, et al., 2013). Now almost all the benefits (direct money transfer for different subsidy payments(cooking gas cylinder subsidy), wages under employment programmes(wage payment under MGNREGA), various pension(old age pension) and insurance benefits (Prime Minister Jeevan Jyoti Bima Yojana (PMJJBY); Prime Minister Suraksha Bima Jojana (PMSBY); Atal Bima Yojana (ABY) are linked to bank accounts, which may increase the utility of bank accounts and reduce the dormant accounts especially accounts with post office banks as they are more approachable at least cost to most of the rural households.

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