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RESEARCH ARTICLE

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EXAMINING FINANCIAL NEEDS OF LOW INCOME INDIVIDUALS AND THEIR FINANCIAL INCLUSION

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ABSTRACT

Purpose: Roti, kapda, makaan! Low income individuals in developing countries like India have time and again had very restricted access to resources and opportunities. Though such people do not lack access to finances all together, their need for financial services remains largely unexplored and invisible to formal financial systems. Low-income individuals being an important section of the Indian economy, any economy that grows and does little to promote the cause of such individuals is devoid of social purpose. Growth hence must be inclusive and an economy's growth trajectory should create enough opportunities for low-income individuals to gain access to financial services provided in the economy. Such a broader access makes it possible for people to improve their socio-economic status. This paper aims to explore the basic financial services needs of such individuals. **Design/methodology/approach:** The author(s) attempt to determine from a probabilistic representative sample of low-income individuals in Coimbatore district, Tamilnadu the basic financial services required, besides attempting to offer insights into their savings behavior. This paper applies factor analysis to determine and categorize financial service needs of low-income individuals. Given that very little information is available to financial institutions on financial service needs of such people, this paper attempts to bridge that gap. The management and social implications of providing such products and services are discussed in the conclusion. **Findings:** Family, friends, money-lenders, pawn-brokers and kuries (chit funds) form a major (informal) source of their financing. Semi-formal financial services like micro-financing institutions have also been active of late. While these informal and semi-formal institutions come to the rescue of low-income individuals more often than needed, they are far from perfect. These systems are highly expensive, insecure and inaccessible to most people. In a country like ours with banking behemoths, it is quite disconcerting to note that the social role of our financial institutions towards low-income individuals has not been very enterprising. Low margins on dealing with such customers coupled with pressures of profitability have resulted in banking personnel adopting discriminatory behavior. *In our opinion the exclusion of low income individuals from the financial system is not socially legitimate.* **Research limitations/findings:** The paper focuses on low-income individuals of a particular area which is a miniscule representation of the total number of people in the category and hence the findings cannot be generalized. **Originality:** The paper relies on the primary data collected by the author(s) as part of their on-going research in this area.

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INTRODUCTION

The social role of financial institutions towards low income individuals has been the object of numerous debates. The success of inclusive development hinges on the access to financial services available to such low income individuals. A broad based access would help uplift their economic condition besides health and education thus leading to their socio-economic well being.

The problem however has been the access to financial services. The increase of competition in the Indian banking industry has resulted in more attention to profitability and thereby reduced interest in low income customers. Fulfillment of the financial services needs of low income customers at present is beset with dual problems. In the first instance financial institutions perceive low income individuals as a category about whom there is not much available information (in terms of their needs, demand for credit and the like) and the channels

through which services could be delivered at affordable charges. In this paper the authors discuss several dimensions of the problem of access to financial services and propose a number of measures towards improving access. Interestingly the paper also attempts to throw some light on the financial service needs of such individuals and their savings behaviour. The authors believe that this paper will help financial institutions understand the deeper shades of the lives led by low income individuals besides helping them formulate appropriate policy measures so as to enable low income individuals to participate and benefit from the inclusive development process.

Financial inclusion: Financial inclusion is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. As banking services are in the nature of a public utility service, it is essential that banking and payment services are provided to the entire population without discrimination. Low income individuals (LIIs) do not appear to be the most interesting target for profits. Low margins and low volume of transactions often lead to banks hoodwinking this section altogether. Their exclusion from the financial system however is not socially acceptable or legitimate. This is the underlying reason for the new thinking and discussion concerning the social role of financial institutions in inclusive development. According to this school of thought, basic financial services tend to be regarded as quasi essential. The Reserve Bank's broad approach to financial inclusion has been aimed at "connecting" people with the banking system and enabling them to access the payments system and not just higher credit dispensation. The Reserve Bank has adopted a decentralized approach in this regard with close involvement of the State Governments and banks and used multiple channels, *inter alia*, civil service organizations, NGOs, post offices, farmers' clubs, panchayats and MFIs as business facilitators to expand the outreach of banks. A simple benchmark employed to assess the degree of reach of financial services is the number of deposit accounts (current and savings) held as a ratio to adult population. In the Indian context, the ratio of deposit accounts to total adult population is hardly around 59 per cent. This ratio varies across states, ranging from 89 per cent in Kerala to 21 per cent in Nagaland. The spread of banking facilities is, thus, uneven in the country, with a substantial proportion of the households, especially in rural areas, still outside the coverage of the formal banking system. Almost 40 per cent of the adult population of the country, comprising mainly those living on low incomes and those without pre owned collaterals, is unable to access mainstream financial products such as bank accounts and low cost loans. Such households are likely to use the informal credit markets, often at high interest rates, contributing to spiraling debt.

Financial Inclusion: RBI's Policy Measures: The Reserve Bank has, taken a number of measures in recent years to tackle financial exclusion by enhancing access to banking services including the following:

- Banks have been urged to make available basic banking 'no frills' account either with 'nil' or very low minimum balances with minimal charges as such accounts would make banking services accessible to vast sections of the population. Regional Rural Banks have also been advised to allow limited overdraft facilities in 'no frills' accounts, without any collateral.

- Banks are required to make available all printed material used by retail customers in the concerned regional language.
- All State Level Bankers' Committee (SLBC) convener banks have been advised to initiate action for identifying at least one district in their State/Union Territory for, 100 per cent financial inclusion.
- The 'know your customer' (KYC) procedure for opening 'no frills' accounts has been simplified so that people from low-income groups do not face problems in opening new accounts.
- Banks have been asked to consider introducing a General Purpose Credit Card (GCC) facility in the nature of revolving credit up to Rs.25,000 without insisting on security or purpose at deregulated interest rates at their rural and semi-urban branches. Fifty per cent of the GCC loans are treated as part of the banks' priority sector lending (indirect finance to agriculture).
- Guidelines have been issued to banks to enhance their outreach by utilizing the 'business facilitators' and 'business correspondents' models. Banks are also entering into agreements with Indian postal authority for using the wide network of post offices as business correspondents.
- Banks are encouraged to make use of information and communication technology (ICT) using bio-metric smart cards and mobile hand held electronic devices for receipts and disbursement of cash by their agents such as business facilitators/correspondents. The recommendations of the Working Groups constituted by the Reserve Bank to suggest measures for enhancing provision of banking services, strengthening financial institutions and improving currency and payments systems in under-banked regions of the country such as the North- Eastern Region, Chattisgarh, Uttarakhand and Bihar are also under implementation.

Objectives of the study

The following are the objectives of the study:

- To ascertain the basic financial services required by low income individuals(LIIs)
- To ascertain the savings pattern and the motive behind savings of LIIs
- To find the factors influencing savings of LIIs.

METHODOLOGY

The study is empirical in nature based on primary data collected by the authors using probabilistic representative samples of low income individuals from tank-bund areas in Coimbatore district, Tamilnadu. For the purpose of the study a survey was conducted among LIIs in specified tank-bund areas in Coimbatore. The data was collected using personal interviews and through an administered schedule. The sample size of this study is 300 households. The questionnaire was designed for data collection. The questionnaire is divided into seven parts for the data. They are as follows:

- Personal details
- Status of living
- Financial position
- Borrowings

- Usage of banking services
- Financial inclusion
- Statements showing the respondents attitudes

Tools for Analysis

The following tools are used for analysis:

- Percentage analysis
- Factor analysis
- Mean square value

Findings of the study

Personal Details

- The first section of the questionnaire presents the personal details of the respondents. More respondents are of the age group 31 – 40. The majority of the respondents of this study are males and 90% of them are married.
- The educational qualification of the respondents is below 8th standard. 60% of the employees have only completed primary education.
- For very two earners it is observed that there are at least three dependents in the family.
- The occupation of the majority of the respondents is daily coolie. 30 % of the respondents work in private concerns.
- 70% of the respondents are in nuclear family and their monthly income is less than 5000 rupees.

Status of living: The second section of the questionnaire gives the details regarding the status of living. The information covers aspects such as status of the house, household electrical appliances and information regarding their assets.

27% of the respondents live in rented house. 63% of the respondents live in the house given by the government board.

95% of the respondents have access to electricity and water facility. 89% of the respondents own cell phone for their telecommunication.

The table below shows the details regarding the household electronic appliance

Financial Position

The respondents were asked to present the detail regarding their financial position which includes savings and borrowings. Majority of the respondents' pattern of savings is weekly and 20% of the respondents have no savings. The amount of savings is around Rs.51-Rs.100.

In this study the respondents were asked to rank their motive for savings. The result is shown in the table below:

Borrowings

The fourth section of the questionnaire presents the information regarding the borrowing of the low income households. Majority of the low income households borrow money fortnightly.

The respondents were asked to present their ranking for the reasons for borrowing. The results are shown in the table below:

The table below shows the details regarding the ranking of the source of borrowing

The respondents were asked to rank the reasons for selecting a particular source of borrowing, the results are shown below:

Usage of Banking Services

The fifth section of the questionnaire gives the data regarding the usage of the banking facilities. 63% of the respondents hold a bank account and in that 43% of the respondents have savings account and 18% have fixed deposit.

37% of the respondent's do not have a bank account and they have given their reasons for not holding the bank account. The table below shows the percentage of the respondents and the reasons.

In this study the respondents were asked to rate their awareness of the banking services in a three scale rating where 1 is assigned not aware of and 3 is assigned using the services at present. The result is shown in the table below:

The expectation of the respondents from the banks is that there should be advisory services available to them and 25% expect that there should be new schemes that are access by low income households.

Financial Inclusion

The sixth section explains the financial inclusion of the low income individuals. The table below shows the rating of the respondents regarding the features of the bank to attract the low income households in a five scale rating where 5 stands for strongly agree and 1 stands for strongly disagree .

The table below shows the rating of the respondents regarding the features to include the low income households in financial inclusion in a five scale rating where 5 stands for strongly agree and 1 stands for strongly disagree.

The table below shows the rating for improving financial literacy among the low income households.

73% of the respondents said that they are in need of advisory services to manage their finance and the mode of delivery should be through specified centre and banks.

The table below shows the rating for the role of bank in financial inclusion.

The table below shows the rating for the role of government in financial inclusion

Factor analysis: For the factor analysis, a questionnaire which contains 22 statements has been given to the respondents. The respondents were asked to rank in a five point rating scale. To reduce the number of variables into minimum manageable variables, factor analysis is performed. Four variables are grouped under the first factor and another three variables are included in the second factor.

Table 1. Use of Electronic Appliances by LIIs

S.No	Particulars	Number of respondents	Percentage
1	Mixie	171	57
2	Grinder	135	45
3	Fridge	15	5
4	Washing Machine	45	15

Table 2. Motives to save by LIIs

S.No	Savings Motive	Mean value	Rank
1	Basic needs and safety	3.95	I
2	Medical expenses	3.80	II
3	Marriage or other occasions	3.45	III
4	To meet future expenses	3.27	IV
5	Education	3.13	V
6	To meet festival expenses	3.05	VI
7	To own a house	2.60	VII
8	To meet emergency situation	2.30	VIII
9	To by assets	2.15	IX
10	To improve your society status	1.30	X

Table 3. Preferred Mode of Savings

S.No	Schemes	Mean Value	Rank
1	Chit funds	3.60	I
2	Post office	3.50	II
3	Local money lenders	3.35	III
4	Bank	3.25	IV
5	Self help group	3.15	V
6	LIC	2.75	VI
7	Self saving	2.50	VII
8	Small scale financial institutions	2.05	VIII

Table 4. Reasons for choice of Savings scheme chosen

S.No	Reasons	Mean value	Rank
1	Easy to deposit	4.05	I
2	Simple rules and regulations	3.78	II
3	Transparent policy	3.65	III
4	Easy to approach	3.04	IV
5	Interest rate	2.50	V
6	Continuous follow up	2.45	VI

Table 5. Reasons for borrowing3

S.No	Reasons	Mean value	Rank
1	Meet basic needs	4.23	I
2	Medical expenses	3.98	II
3	Marriage or other occasions expenses	3.67	III
4	Education	3.45	IV
5	Festival expenses	3.03	V
6	To multiple assets	2.70	VI

Table 6. Sources of borrowing by LIIs

S.No	Source	Mean value	Rank
1	Money lenders	3.97	I
2	Friends or relatives	3.78	II
3	Cooperative society	3.44	III
4	Post office	3.32	IV
5	Bank	3.04	V
6	Small financial institutions	2.87	VI

Table 7. Reasons for choosing borrowings source

S.No	Reasons	Mean value	Rank
1	Easy to get	4.45	I
2	Simple rules and regulations	4.30	II
3	The loan amount is sanctioned according to the requirement of the customers	4.26	III
4	The loan is sanctioned at the right time for the customers	3.76	IV
5	The customers are eligible for more than one loan	3.45	V
6	No compulsory savings	3.25	VI
7	Personal loan is sanctioned according to the individual requirement	3.15	VII
8	Easy installment	2.45	VIII
9	Time and cost saving	2.27	IX
10	Low interest rate	1.98	X

Table 8. Reason for not owning bank account

S.No	Reasons	Percentage
1	Distance of the bank	18
2	No savings	5
3	Self management of money	5
4	Unawareness	13
5	Other loans can be got easily	13
6	Strict rules and regulations	22
7	No literacy in financial matters	24

Table 9. Awareness of banking services

S.No	Banking services	Reasons	Mean value	Interpretation
1	Fixed deposit or savings	Fixed deposit	2.20	Aware of but not using
		Recurring deposit	1.90	Aware of but not using
2	Other Banking services	Pass book	2.64	Using the services at present
		ATM	1.56	Aware of but not using
		Cheque book	1.24	Not aware of
		Credit card	1.34	Not aware of
3	Loan	Housing loan	2.25	Aware of but not using
		Education loan	2.34	Aware of but not using
		Business loan	1.56	Aware of but not using
		Other loan	1.10	Not aware of
4	Insurance policies	Life insurance	2.60	Using the services at present
		Medical	2.56	Using the services at present
		Property	1.20	Not aware of
5	Post office		2.76	Using the services at present
6	Pension		2.20	Aware of but not using

Table 10. Opinion on financial inclusion efforts

S.No	Features	Mean value	Interpretation
1	Good relationship	3.76	Agree
2	Speed and simple rules	4.35	Strongly agree
3	Loan services for small amount	3.61	Agree
4	Feasibility	3.51	Agree
5	Easy to approach	3.56	Agree
6	Individuals services	2.75	Neutral

Table 11. Opinion of LIIs towards financial inclusion features

S.No	Features	Mean value	Interpretation
1	Increasing the standard of living	3.67	Agree
2	Creating awareness	4.56	Strongly agree
3	Providing financial advisory services	4.05	Agree
4	To start new business or scheme	2.05	Disagree
5	To get the work done by bank coordinators	3.67	Agree
6	Joint programs organized by bank and small financial institutions	2.65	Neutral

Table 12. Improving financial literacy

S.No	Features	Mean value	Interpretation
1	Improving the skills of the individuals in money management	4.05	Agree
2	Creating literacy through students	3.89	Agree
3	Organizing seminars	3.05	Neutral

Table 13. Rating of role of banks

S.No	Role of bank	Mean value	Interpretation
1	The communication should be simple and clear	4.05	Agree
2	The approach of the bank should be honest	3.79	Agree
3	Introducing new technology in providing banking services.	2.50	Neutral
4	Compulsory bank account for every individual	4.56	Strongly agree
5	Corruption should be completely eliminated	4.78	Strongly agree
6	Adaptation of village by the banks	3.89	Agree
7	Merging the functions of post office and cooperative society	2.34	Neutral

Table 14. Role of government in financial inclusion

S.No	Role of the Government	Mean value	Interpretation
1	There should be a common national identity	4.32	Agree
2	The corruption should be completely eliminated	4.78	Strongly agree
3	There should be a separate committee for financial inclusion	3.78	Agree
4	Everybody should be affordable for availing banking services	3.40	Neutral
5	There should be improvement in the infrastructure	3.30	Neutral

Table 15. Factor loading for savings motive

S.No	Statement	Factor Loading
1	I save for my old age	0.78
2	I save because I want to reserve for my unexpected future expenses	0.67
3	I save because I want to improve my standard of living	0.64
4	I save because I want to enjoy the freedom to do things	0.62
5	I save because the future income like interest will help me to meet my expenses	0.60

Table 16. Factor loading for attitudes towards money

S.No	Statement	Factor Loading
1	Money is not just a mean to buy anything.	0.83
2	Money is important to be happy in life.	0.80
3	We should spend money and take advantage of money before dying	0.78
4	I try to put money away in the event of an emergency	0.75
5	To me buying something new is one of the great pleasures in life	0.68

Table 17. Factor loading for future financial planning

S.No	Statement	Factor Loading
1	Financial planning is only important for those who have a lot of money	0.85
2	Presently I think I should re evaluate my financial situation and my financial needs	0.74
3	I am often worried about my future	0.71
4	I am worried about my financial situation when I retire	0.64

Table 18. Factor loading for financial literacy

S.No	Statement	Factor Loading
1	I have the ability to budget my day to day finance	0.74
2	I can easily track my every spending	0.67
3	I have the ability and understanding to manage my debts	0.65

The first factor can be named as savings motive and the second factor can be designated as future financial planning. The statements which are included in the each factor along with their loadings are given below.

Conclusion

Access to finance is thus a core issue in inclusive development. In our sample only a minority has been able to gain access to financial services which had adversely affected their growth. For ensuring inclusive growth this issue of providing broad based access to low income individuals must be addressed head on. LIIs often save very little money to the tune of Rs50-Rs.100 per week. Providing financial services to such people will have far reaching impact on the welfare of their families.

Based on our understanding of LIIs in this study we opine that the Indian government needs to focus on the following key areas:

- Government should recognize the need to serve LIIs who are presently unserved or underserved and make it an agenda to be pursued.
- The government must mandate collection of data on LIIs so that different dimensions of the access problem can be identified. In this regard the cooperation of financial institutions with work by the academia would help further the cause.
- The government may consider providing private operators with sufficient autonomy to make decisions in this regard.

- The government must amend the financial regulatory system so as to provide an impetus to the integration of LIIs in the financial mainstream.
- The financial infrastructure needs to be strengthened to reduce risks for financial institutions and transaction costs for the participants.

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