

Issues Pertaining to Financial Inclusion – An Analysis Using SWOT Approach

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Abstract - This research paper focuses on survey, analysis of people who belong to vulnerable groups and issues related to implementing of Financial Inclusion (FI) in two regions of Tamil Nadu state. Hypothesis was formulated H₀, which are based on income level of vulnerable group members and their saving constraints. Based on 100 samples being collected from each region and analyzed using SPSS [SPSS 2011]. Different age groups varying among 25 to 65 the issues of utilizing FI and factors behind implementing FI were analyzed using SWOT. The strength and opportunities, which are on identified being positive provides support while the weakness and threats are indicative to be negative in providing support to implementation aspects of FI. SWOT analysis provides suggestions on handling the weakness and threats, which identifies the demand and issues lying behind FI implementation. The results clearly indicate that the two hypotheses being accepted based on crucial financial input parameters. Suggestions were provided to improve the current scenario with inputs for future analysis.

Key words: *Financial Services, Income, Savings, Vulnerable groups, SWOT*

I. INTRODUCTION

The banking sector has taken a lead role in promoting financial inclusion which acts as a passport to a range of financial products and services such as short term credit facilities, over draft facilities and credit card. Vulnerable people living in rural villages are devoid of access to financial services such as, [i] Affordable credit from banks, [ii] Handling savings account, [iii] Managing Payments & Remittance in banks, [iv] getting financial advice for loans, [v] Utility of Credit/debit cards, [vi] Insurance facility for health, education, [vii] Empowering SHGs (Self Help Groups). The government of India as well as the banking industry has recognized this imperative and has undertaken different fundamental changes over the last two decades. Hence in order to address the issues of financial inclusion, the Government of India constituted a “Committee on Financial Inclusion” [Rangarajan, 2005]. Not only in India, but financial inclusion has become an issue of worldwide concern, equally relevant economies of the under developed

and developing nations. This paper analyzes and provides support on socio demographic variables, reason for using service in particular financial service institutions, type of usage, influence of non formal financial resources on FI in economically developing country like India.

II. REVIEW OF LITERATURE

In India, it is an attempt to improve access to financial services or financial inclusion, the Reserve Bank of India (RBI) promulgated a drive for financial inclusion, where nationalized banks take the lead in providing all ‘unbanked’ households in a district, with savings accounts (No Frill Accounts). It was identified that the number of “No Frill Accounts” increased from the Centre for Sustainable and Rural Development (CSR) [ISRD] conducted a study to assess the implementation of the financial inclusion drive and usage of banking services in sample areas of Tamil Nadu. On examining the demand for FI implementation in Tamil Nadu, which is an integral part of India, [Business Ball] [SERP, 2010] noticed numerous issues and challenges lying ahead.

The study [Hema, 2012] finds that the number of rural households with bank accounts doubled over the duration of the financial inclusion drive. However, still 36% of the vulnerable groups remain excluded from any kind of formal or semi-formal savings accounts. Further, bank accounts have been opened typically to receive primarily government assistance schemes, such as National Rural Employment Guarantee Programme (NREGP), Know Your Customer (KYC) Norms [Chakraborty, 2011], credit facilities [Rangarajan, 2008]. Usage and awareness of the bank accounts remains low. Savings in Self-Help Groups remains the most popular form of savings in a formal/semi-formal place.



Fig. 1.1 - Percentage of No Frill Accounts maintained in Banks

III. METHODOLOGY

In order to understand the extent of financial inclusion in a general context and the perception of vulnerable people

regarding financial inclusion, a detailed survey was conducted in Jamunamarthur and Sriperumpudur. 100 samples were collected. The survey was conducted through a questionnaire containing twenty five questions. Multiple options were being provided and selected by responders based on their level of service utility and understanding capacity. Collected data were analyzed using SPSS [SPSS 2011].

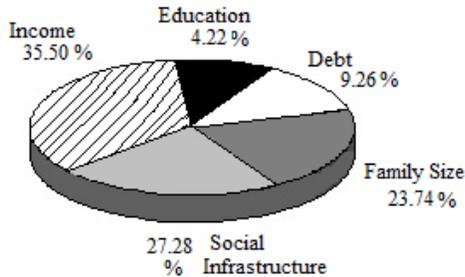


Fig. 1.2 Socio economic status of Jamunamarathur Village

Fig. 1.2 explains the financial status of Jamunamarathur, which comprises of not more than 3000 people with around 200 people per square kilo meter. The socio-economic status of this region depends on farming, selling rural crafts items, selling vegetables and many of them are either coolies or labours. The major income of this village is farming which is highly rained. Fig. 5.3 explains the socio-economic status of Sriperumpudur, Kanchipuram district. It is interesting to note that most of residents of this region are highly engaged in industrial and local businesses. Farming is less in this region, since most of lands are occupied by industrial and tourist destinations. Income flow is nominal in location where almost 27.28% of people live with basic amenities and around 35.50% of people live with savings and monthly income, while debts are found to be 9.26% on an average. Even though education is found to be low of 4.22% on an average, the people are equipped to work in industries as a technical worker which does not demand any basic education.

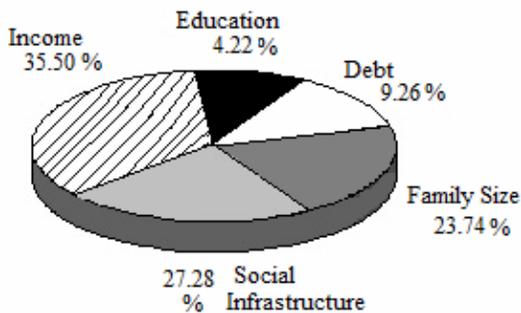


Fig. 1.3 Socio economic status of Sriperumpudur

Both these villages are considered for Financial Inclusion implementation under various financial schemes. Nationalized public banks and private banks work together in implementing the schemes for vulnerable groups or people who live below poverty line (BPL) as defined by RBI. The collected primary data being adopted for analysis based on the responder's knowledge of FI and usage limits.

Table 1.1 Variables Influencing Financial Inclusion

	Respond. Type	No Frill Acc.	Money laundering	Utilization of FSI schemes	Ave. Mont. saving
Age	>20 - <40	23.74%	3.63%	24.94%	35.53%
	>40 - <60	68.14%	73.83%	61.26%	51.22%
	>60 - <75	12.45%	22.54%	13.80%	13.25%
Ave. monthly Salary	<3000	85.12%	74.29%	35.69%	5.62%
	< 5000 & > 3000	14.84%	11.32%	22.41%	21.79%
	< 8000 & > 6000	8.23%	8.42%	29.48%	32.98%
	> 8000	1.28%	5.97%	12.42%	39.61%
Literacy Level	Illiterates	7.25%	52.51%	2.19%	59.90%
	Primary Level	25.54%	25.72%	19.42%	29.23%

Access to effective financial services depends on responders' option for the questionnaire. From the average number of responders who accessed the banks it was noticed that around 37.52% of people of the vulnerable group members have access to "No Frills" bank account. On an average, the people belonging to vulnerable groups who possess savings account vary among 17.85% to 24.29%, which is marginally low when compared with vulnerable groups who maintain "No Frill Accounts". Relatively around 70.42% of people do not maintain savings account, which is based on responders review and analysis. Responders indicated that there were no nationalized banks supporting FI near by 200 kms, hence the people have to travel to near by urban region called Ambur to handle all transactions.

Even though much opportunities (+) arise in providing savings through SHG and farmer's club activity which is mooted through NABARD rural schemes [NABARD, 2010], due to lack of financial awareness and less literacy level among vulnerable groups (-), most of saving procedures are not adopted. The survey indicates that more than 32.64% of people in vulnerable group had not even attended basic education while around 59.25% of people have basic education and 8.11% of people had attended higher education. Jamunamarthur village which is considered for survey and analysis does not possess any high school education over surrounding 200 to 400 kms, hence all the residents have to attend high school only in near by urban locations.

The survey indicates that responders are accessed to money lenders when they are in need of immediate need for funds.

Responders feel that they are dejected by banks which do not provide any support to vulnerable groups to handle funds when required. Even though money lenders demand high rate of interest and since there is no need for any security assets to access fund, the people in this regions depend on money lenders to handle the money. It was noticed that more than 67.25% of people regularly access money lenders.

IV. ANALYSIS & INTERPRETATION

SWOT Analysis [HILL 1997] [ROB, 2004] [Wikipedia, 2007] is instrumental in strategy formulation and selection. It is considered as a strong tool to evaluate subjective element of concern. The tools guides successful evaluation of the challenge which is build on domain strengths, identify their weakness as well protect against internal weaknesses and external threats. SWOT evaluates by controlling and maintaining a watch on the overall financial environment under study which can recognize and exploit new opportunities faster.

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

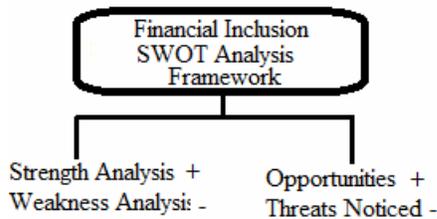


Fig.1.4 SWOT analysis for Financial Inclusion

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is discussed pertaining to the Financial Inclusion domain on study.

A. SWOT analysis over utilization of financial services

This section evaluates the current financial inclusion situation in two different regions which are financially included. Based on data collected from two regions the case study considers five variable parameters.

Null Hypothesis H₀: There is an relationship exists between income level, saving habit of respondents and no frill account.

Alternate Hypothesis H₁: There is no relationship exists between income level, saving habit of respondents and no frill account.

The relationship between income level of respondents belonging to vulnerable groups and their type of saving procedures, should aim to identify the income level of

respondents along with their saving procedures. The responders belong to a remote village Jamunamarathur where primarily most of villagers. Table-1.3 indicates the Strengths, Weakness, Opportunities and Threats of points in questionnaire.

Table 1.2 SWOT information gathered based on Hypothesis

Strength (+)	Weakness (-)
1. Maintenance of No Frill bank accounts- to enable each issuer to open and manage transaction. 2. Improve the savings and credit ratios among responders. 3. Vulnerable group members with consistent and monthly salary can improve savings.	1.No proper monthly income among responders 2. Less literacy level among rural people. 3. Lack of awareness among vulnerable people. 4. Bad Debts and absence of savings procedures.
Opportunities (+)	Threat (-)
1. Increased activities of Self Help Groups and farmers club can create more motivation among rural peoples to utilize other financial services. 2. Improving relationship between BCs and BFs. 3. Improving saving and credit access for responders.	1. Increased access of small scale money lenders who provide money to rural people. 2. Religion attitudes / behavioral attitude / caste / sect of population attitude. 3. Family financial constraints / Impacts

- Strengths-** Strengths of financial inclusion include RBI's norms of opening No Frill Account among all members of vulnerable groups, maintaining savings accounts, providing easier credit facilities, and creating multiple infrastructures for providing feasible access to vulnerable groups. Strengths define the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, services rendered, earning customer goodwill and brand loyalty.
- Weaknesses-** Weaknesses deteriorate the organizational success and growth, which include bad debts, complex decision making process and narrow product range which is suitable only for upper or middle class customers. Weakness of implementing financial inclusion focuses on bad debts of members of vulnerable groups, no proper income among members, and lack of awareness about various financial services.
- Opportunities-** Opportunities may arise from market, competition, industry/government and technology. Opportunity may arise in financial inclusion which includes commendable increase in credit ratio of vulnerable group members, savings of Self Help Group (SHG).
- Threats-** Threats are uncontrollable, when a threat arises, the stability and survival of system can be critical. Threats of FI are access to money lenders, regional and religion based barriers and cost of living increased.

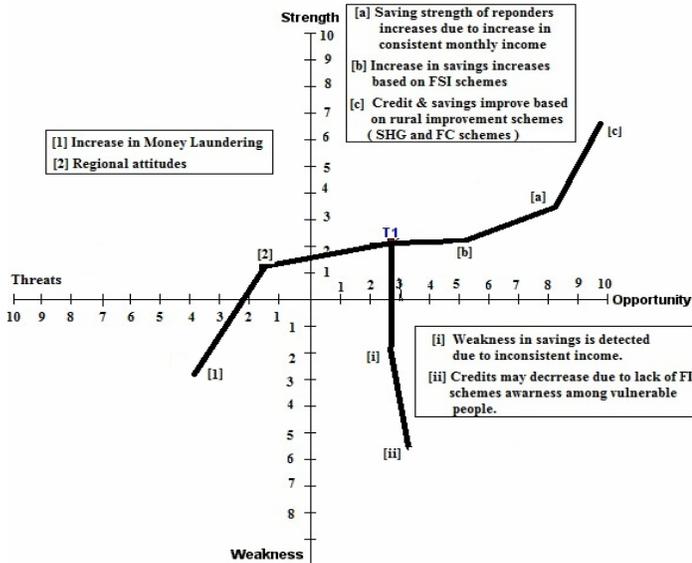


Fig.1.5 SWOT analysis for hypothesis H₀

From Fig-1.5 it is clear that, points [a] and [b] denotes the strength of responders lies in saving schemes and consistent monthly income. [c] Indicates that any increase in credit and saving schemes contribute to upliftment of vulnerable group member into financial inclusion. Points [i] and [ii] indicates the weakness of vulnerable group members to become part of FI, which are primarily due to inconsistent income level and increase in number of bad debts which degrade the saving attitude of vulnerable groups. SWOT analysis clearly identifies the weakness and possible threats of vulnerable group members. Points [1] and [2] identifies unknown threats which are considered to be critical based on their nature of domain and subject under study. It can be noticed that curve moves down between threat and weakness region i.e., [2] to [1] which is due to money laundering, considered to be critical in fund management of an individual vulnerable group member. Hence based on data collected and SWOT analysis carried out, it can be decided that the hypothesis remains as ACCEPTED.

V. FINDINGS

Following outcomes are achieved based on primary data collected for hypothesis.

(a) General: It can be summarized that 51.4% of vulnerable households groups are financially excluded from both formal / informal financial sources. Of the total vulnerable households groups, only 27% access formal sources of credit; one third of this group also borrows from non-formal sources (through money lenders). Overall, 73% of vulnerable households groups have no access to formal sources of credit.

(b) Region-wise: Exclusion is most acute in specific districts of Tamil Nadu, such as (being considered for survey) having a concentration of 64% of all financially excluded vulnerable groups in the country. Overall indebtedness to formal sources

of finance alone is only 19.66% in these three regions.

(c) Occupational Groups: Few marginal vulnerable groups constitute 26% of total income group. Only 45% of these households are indebted to either formal or non formal sources of finance. About 20% of indebted marginal vulnerable groups have access to formal sources of credit. Among non-income vulnerable nearly 80% do not access credit from any source.

d) Social Groups (Vulnerable groups): Only 36% of vulnerable groups households are indebted (SCs and Other Backward Classes -OBC - 51%) mostly access the informal resources. The Analysis of the data is provided by RBI through its Basic Statistical Returns [RBI, 2007] which reveals that critical exclusion (in terms of credit) is manifested in 256 districts, spread across 17 States and 1 Union Territory, with a credit gap of 95% and above. This is in respect of commercial banks and RRBs. Thus, there are different estimates of the extent of inclusion through formal sources, as the reference period of the data is not uniform.

VI. CONCLUSION

The proposal suggests studying, analyzing methods to provide financial inclusion to the vulnerable groups or people below poverty line (BPL) such that they can play a major role in the upliftment of the country. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies which had touch all lives.

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