FINANCIAL INCLUSION AND INCLUSIVE GROWTH: A STUDY TO FIND GAPS AND REALITIES IN A SMALL TOWN THROUGH THE LENS OF FINANCIAL PRODUCT AND SERVICES

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Abstract : The economic wellbeing and growth of a nation depends upon the ease of availability of funds for developmental activities. Efficient mobility of funds in the capital market is the key to such aspirations for which various instruments in the form of financial products and services has been designed by the financial system. The government has been continuously bringing in new policies to regulate the mechanism of flow of funds in the system. However, there is a gap between the steps taken by the system as a whole and the realities that exists when it comes to the effectiveness of the system to utilize the financial products and services to mobilize funds. This paper is an attempt to study the efficacy of some of the top financial products and services that are on offer to the common people. Considering the concept of financial literacy and inclusive growth in the backdrop, this study has been performed through a small survey of regular income employees of a state university located in Rural town of Andhra Pradesh, India. The research focused on awareness level and individuals investment preference in some of the financial products. The findings reveal that even very highly educated individuals lack the basic understanding of most of the products and services. More interestingly, majority of the respondents preferred not to invest in most of the products which are considered significant for fund mobilization by the financial system. The facts and findings of the study brings into focus, of constrains that would be far more challenging than it appears to the financial system at present.

Keywords: Inclusive growth, financial literacy, financial product, fund mobility

INTRODUCTION

The planning commission, Govt. Of India is looking forward to a 'Faster, Sustainable and More Inclusive Growth' in its approach to the twelfth five year plan (2012-2017). The growth policies formulated in the current and previous planning's very well reflects the importance of making financial products and services available to every part of the nation's population for a faster and inclusive growth. This will not be possible without increasing the efficiency of the financial system to mobilize household savings and allocating them efficiently to meet the equity and debt needs of the fast expanding private sector (Govt. of India, 12th five year plan, planning commission)[1]. The financial system comprises of large number of financial institutions like banks, non bank finance companies, mutual funds, Insurance companies etc. These institutions offers a wide range of financial products and services to the customers for short, medium and long term savings and investment. Some of those products include termed deposits, Life and non life insurance, Mutual funds, pension funds, equity and debt investment options etc. However, there exist a significant disparity in penetration of such products in rural and semi urban areas and moreover the acceptance by small town customers as compared to metros and other urban areas. One of the major reason for the aforesaid observation could be attributed to the financial illiteracy of the small town customers .

The Reserve Bank of India and other commercial banks have taken several initiatives since last several years to improve financial literacy in Rural areas. The significance of making the financial system more efficient through financial literacy can be very well understood from a keynote address by D. Subbarao (Governor , RBI) in which he says' "Since the challenge is to link large number of financially excluded people to the formal financial system, the focus of the Strategy at the base level is to create awareness of basic financial products. For the purpose, the financial literacy efforts is primarily directed towards dissemination of simple messages of financial prudence in vernacular language through large campaigns across the country combined with vigorous roll out of financial inclusion plans by banks, insurance, pension funds and others. ," (India-OECD-World Bank Regional Conference on Financial Education, 4rth march 2013)[2] . However, most of the bank customers lack the basic understanding, motivation and confidence to invest in many of the financial products that are being offered by banks and other financial institutions. Surprisingly, many customers having higher educational degrees and who have well access to information also fail to judge financial products for their personal investment portfolio. Many of them restrict themselves only to very well known financial products like Life Insurance and Fixed deposits apart from bank savings account.

It would be interesting to find out the extent of awareness of some of the topmost financial products like termed deposits, Insurance products, various funds etc. amongst the educated and salaried category in small towns . This would directly or indirectly reflect the effectiveness of the financial literacy programs till date and also the efficiency of the financial institutions to bring-in potential customers to the mainstream financial system , especially in rural and semi-urban areas . Moreover, it would also be interesting to find the willingness of such customers to buy some of those products as it would help to understand the effort that should be made in future to mobilize the huge household savings from such potential customers through various financial products.

Literature Review

The review of various related articles in context of the study reveals the importance of the accessibility and acceptability of financial products and services. Although the accessibility to the financial products is no more a challenge due to the rapidly expanding financial system, the acceptability of many of those products is doubtful. Many of these products like health insurance , mutual funds etc. are quite recent and people usually lack the conceptual understanding due to complexities associated with such products and services. Financial Inclusion therefore, is delivery of not only banking, but also other financial services like insurance, pension, remittance, mutual funds, etc. delivered at affordable, though market driven costs. (M.I. Dholakia, Money , SME world,Nov 2009)[3]. The key aspect of financial exclusion is the lack of "financial education and advice". Financial literacy thus would be very crucial for increasing the penetration of those recent products and services . This can be very well understood from one of its definition by the Reserve bank of India: 'providing familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices. Viewed from this standpoint, financial education primarily relates to personal finance to enable individuals to take effective action to improve overall well-being and avoid distress in matters that are financial' (RBI, 03 April 2008) [4].

Failure of 'Inclusive growth' policies without financial inclusion is inevitable. To achieve more inclusive growth, the twelfth five year has decided to take certain steps; one such step talks about reforms in financial system as the government see Mutual funds, insurance and pension funds not only as efficient routes through which household savings can be mobilized for corporate investment, but also vehicles that provide financial security to a large section of our population (Govt. of india,12th five year plan, planning commission). Some of the financial products mentioned like Mutual Funds, Health Insurance are relatively new in India (particularly Rural towns). Although there are over 3,000 mutual fund schemes in the market, but only four crore folios. Assuming liberally, that each individual has only one folio, this means less than 8 per cent of the population is using mutual funds to invest (N Raghav, Nitin Chaudhary,Business Line;16th march,2011)[5]. This funds have become quite popular in urban areas especially metro's and other bigger cities and towns, however it is yet to be understood and accepted by the small town counterparts. Global advisory firm PWC, in a report has stressed that there is tremendous opportunity for growth of mutual funds as the penetration level of MFs in smaller towns is lagging behind urban cities (Bhave, 24rth June,2012)[6]. In a similar context, making growth more inclusive requires better health care coverage and quality. A large share of the population suffers from poor health and, although it has been increasing, average life expectancy remains relatively low. Moving to better regulation of India's rapidly growing private health insurance market could help raise more funds and more effectively mobilize private sector resources (OECD " October 2012)[7].

Discussions that has been happening since the past few years figures out the significance of the participation of the potential rural population in the financial system in an efficient way. There is definitely a need to understand the gap that exists between policy expectations and existing realities in terms of efforts by the financial institutions offering the financial products mentioned. As very well insisted by C.J. Punnathara in his analysis based on latest progress and trends in banking industry , that ,for nurturing greater equity and accelerate economic development, early gains in inclusion should be transformed into financial deepening as well; the newly empowered bank customers should be enabled to extend their financial activity into an array of products , leading to all round economic development.(P Jagadish, Inclusive growth in global India, 2008)[8].

Research Methodology

The objective of the study was to find out the response of salaried employees to some of the prevalent financial products and services on offer now a day in a small town. The type of research done is quantitative in nature and primary data collection method viz. Questionnaire and personal interview had been used. Five financial product category based viz. Recurring deposits, Fixed deposit, Life Insurance , Health Insurance and Mutual Fund were mentioned in the questionnaire to take responses. Those products were chosen on the basis of ease of availability, duration of investment, risk associated and their significance to the existing financial system. The questionnaire focused mainly on three aspects i.e.

awareness level of financial products and services, willingness to invest in such products and investment preferences of the respondents. As the response had to be very precise considering its significance to analyze data and conclude, the respondents were first explained the purpose of the survey and then interviewed informally before they were asked to fill up the questionnaire. To maintain the desired quality of the survey only seventy employees working in an Andhra Pradesh state Govt. university (RGUKT,Nuzvid) were approached. Most of the respondents are highly educated with a mix of masters and PhD degree holders; many of them are educated from highly reputed institution like IIT's. The sample is a mix of teaching and non-teaching staff with varied age and income.

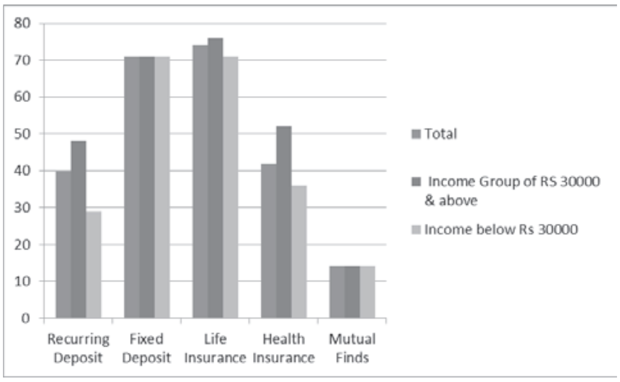
The statistical data being collected was then analyzed to find the cumulative awareness score, willingness score and investment preferences for the entire sample. Further, a more in depth analysis on basis of age and income of the respondents has also been done to have a better understanding of the effect (if any) of such demographic factors on the required parameters under the given situation. For the aforesaid purpose, the respondents has been divided into three categories on the basis of age i.e. i) age below 25 ii)25 to 30 and iii) 30 &above ; moreover two more categories were formed on the basis of Income i.e. i) Monthly salary of Rs 15000-30000 ii)Monthly salary of Rs 30000 and above . The data hence analysed has been represented through bar graphs and pie charts to make a report and draw a conclusion out of it.

Data Report and Analysis

The response of the thirty five respondents has been categorized to three segments viz. i) The awareness level of the products, ii) Those who already hold (or willing to invest in) the product and iii) investment preference of a certain part of their salary that is excess. The data has been sub categorized to further analyze on the basis of age group and income category. It is found that out of the total respondents, only 45% of them are very well aware of 3 or more than 3 products listed in the questionnaire. More surprisingly, only 31% of them are willing (or already hold) investment in 2 or more such products. A detailed analysis of the research findings are as mentioned below:

Awareness level

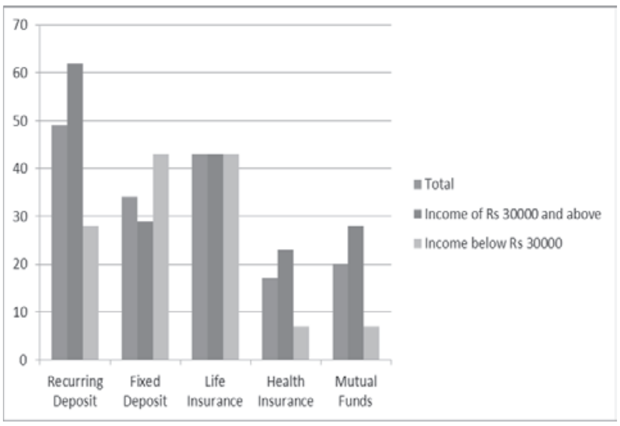
Bar graph 1: Products very well known to the respondents



It is found that Fixed deposits and Life insurance are the most well known financial products with awareness level of more than 70%. Awareness level of recurring deposit and health insurance is quite low and mutual funds holds the least awareness level with only 14% people claiming that they know quite well about such products. If the awareness score about the mentioned products are analyzed on the basis of income, it is found that there is not much change in the behavior in terms of percentage of respondents who are well aware of those products in both the categories. To illustrate, the percentage of people who knows about Fixed deposit in the income group above of Rs 30000 and above is 71% which is same as in the case of Income below Rs.30,000. A similar trend can be observed in case of the other products except slight deviation in case of recurring deposit and health insurance.

Already hold (or willing) investment in one or more products

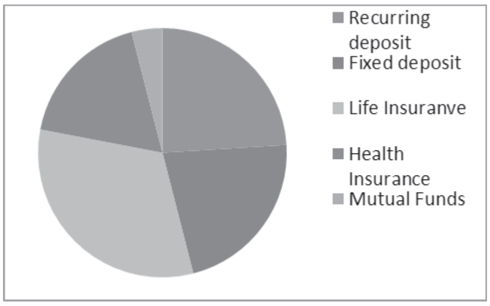
Bar graph 2: Showing willingness level to invest in given option



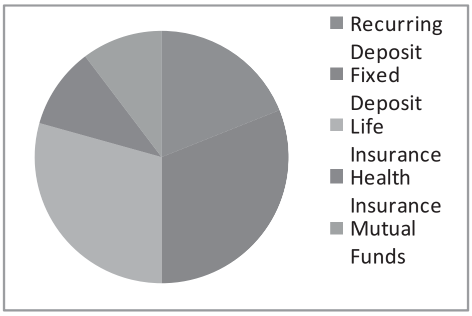
Recurring deposit is the most preferred investment option as the willingness level close to 50% is the highest amongst all other options. Life insurance with 43% response percentage and fixed deposit with close to 35 % is also not very far behind compared to recurring deposit in terms of preferred options for investment. Health insurance and mutual funds are the least preferred options. An income wise analysis reveals some deviation in the preference to invest for both the categories; the respondents with higher income showed more willingness to invest in options like health insurance and mutual funds as compared to the lower one. However, in case of fixed deposit there is slight deviation from the observed trend ; only 28% in income group of Rs 30000 and above are willing to invest in fixed deposits which is comparatively less than 42 % for the other income group.

Age Group wise analysis of Awareness and willingness (The percentage representation is after adding the awareness and willingness score for each of the products in each category)

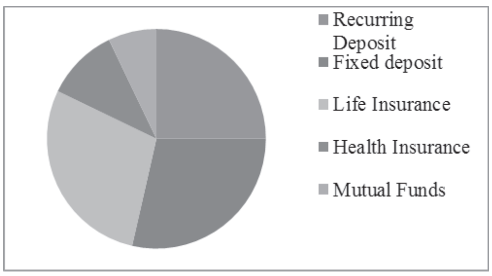
Pie Chart 1: Age Group 20-25



Pie Chart 2: Age Group 25-30



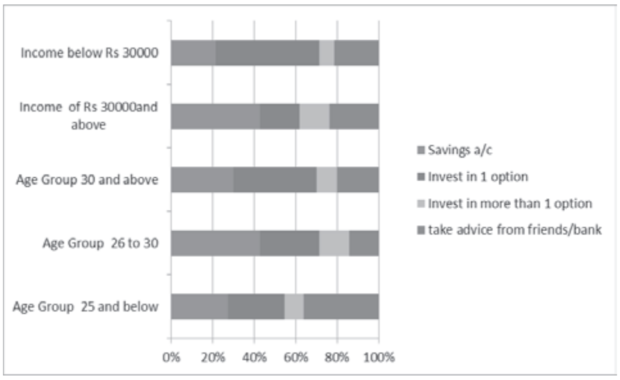
Pie Chart 3: Age 30 and Above



It is clearly revealed that irrespective of the age group, the awareness and willingness score of Life Insurance and fixed deposits is significantly higher than the rest of the products. In the first category, majority prefer life insurance while in the other two groups majority has preferred fixed deposit over others. Recurring deposit possess a uniform trend with 25% (approximately) preference in all the age groups. Again, health insurance and Mutual funds are the least known and preferred (not more than 10%) in all most of the cases except a slightly higher awareness and preference for health insurance in the age group of 20-25.

How would the respondents prefer to invest Rs 10000 a month after meeting all other financial obligations including Tax exemption

Bar graph 3: category wise Percentage representation of investment preference



To understand the investment behavior of the respondents, a virtual situation where the respondents would be left with Rs 10000 excess after meeting all the expenses was given. The response found very well supports the previous two analysis in the study. More than 50% of the respondents would either keep their money in savings bank A/c or invest in only one of the options mentioned in the list. Individuals who are confident to invest the given amount in more than one option is significantly low (<10%) in all the categories. It is little surprising to find that more than 40% of the respondents in the age group of 26-30 (who are capable of taking risk) and people with higher income (potential to invest), have preferred to keep their money in savings a/c instead of investing in medium to long term options.

Apart from the data obtained from the questionnaire, informal interview with the respondents revealed that most of them know quite well about fixed deposits and Life insurance due to various reasons. However, they find it quite difficult to understand the products like health insurance, mutual funds etc. due to the complex nature of such products. Many of them also mentioned that even marketers of those products could not make them understand which discouraged them to invest in such options. Although most of them said that they have heard about the listed products through various sources of advertisement, many are ignorant towards it.

CONCLUSION

The findings from the study very well supports the fact that the existing financial system and the related institutions are focusing mainly upon very few part of the country's population viz. urban cities and bigger towns. There exists a significant gap between the growth expectations and the ground realities in context of 'mobilization and utilization of funds' that support developmental activities. Albeit tremendous effort has been made by the financial system to bring every section of the country into the mainstream, the poor financial literacy has posed many challenges in its path to balance inclusion and growth. Growth is possible only when inclusion is succeeded by deeper penetration of the financial system. Effective tools or mechanism to bring in more and more people from all parts whether rural or urban to take part in the mainstream financial activities would be the key . Highly customized financial products and services like mutual funds, insurance etc. may act as those tools if it reaches out to vast majority of the population. However, the penetration level of those products is very insignificant in semi urban and rural towns. Firstly, the awareness level is very less and if aware the confidence and willingness to invest in those products is low as found from the study. The facts found from the study would be disappointing to an extent to many interested entities as it was performed on well educated individuals with regular monthly salary . It clearly reveals that the existing financial set up with the banking system dominating the rural and semi urban locations had just not been efficient enough to motivate and impart confidence to its consumers to take part in financial activities. Most of the respondents who are potential enough to contribute to the mainstream financial activity through the products offered have restricted themselves to the few traditional options like Fixed deposit and Life Insurance. Apart from that, interview with respondents have helped to find that most of them are confused regarding the recent products due to their complex nature. Many said that they are unable to understand the product benefits and process of investment which keeps them away from buying those options.

The think-tanks and institutions who are concerned about the efficiency of the existing financial system have very well stated the importance of not only to reach but motivate the potential part of the population to take part in mainstream financial activities. The concerned institutions must take necessary action plan to support the growth policies. Financial literacy and inclusion in true sense would mean not only to make people aware but encourage them to buy the financial products and services. The institutions must foresee the challenges lying ahead and take necessary steps to support the policies of inclusive growth. It must be concerned to mobilize the household funds in semi urban and rural towns, which, if done efficiently would provide a significant support to growth aspirations of the nation.

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