

# FINANCIAL INCLUSION : A STUDY ON NO-FRILLS BANK ACCOUNT IN PALACODE TOWN

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## Abstract :

Financial inclusion is the process of ensuring timely and adequate access of financial services and credit delivery for low income group at an affordable cost. The basic aim of financial inclusion is to ensure the ease of access, availability and usage of the formal financial services.

The researcher has chosen all four banks in Palacode town where the no- frills bank accounts facilities are in operation. This paper highlights the socio- economic conditions of the beneficiaries, factors influencing the people to open this account, awareness of deposit scheme, opinion of the general utility services and attitude of the customers towards the services of the banks.

Key Words: Financial Services, Financial Inclusion and no- frills bank account.

## INTRODUCTION :

The banking sector plays an important role in the development of Indian economy. Before the dawn on independence, the development of the banking sector was not satisfactory. In the present era the aim of the bank is to rather than to earn profit render services to the public at large. Initially the East India Company established the banks namely Bank of Calcutta in 1806, Bank of Bombay in 1840, and Bank of Madras in 1843, later in 1921, these banks were amalgamated and imperial bank of India was formed. Soon after independence, the banking sector got a remarkable change. Moreover, the government was unable to control the commercial banks and divert the funds in accordance with the expectation of the government. Hence these banks were brought under the control of government during 1969. Then in this year 1980, 14 major commercial banks were nationalized. It was a state sponsored commercial banking institutions, entrusted with the specific task of providing bank facilities to low income group of sections and enlarging the branch network. It has also been entrusted with responsibility of branch expansion in remote area, for which the bankers in the year 2005-06, appoint the Business Correspondence / Business Facilitator BC/BF model to serve the poor people.

The present banking scenario is such that private sector, public sector and co- operative sector exist side by side. Apart from commercial banks, there are industrial banks and development banks, while appraising the service of commercial banks it is found that different banks follow different strategies to develop and render new services.

The financial inclusion is vital for a country like India where a large part of the population does not have access to formal financial services from the bank in nature of savings, loans, insurance, and remittance facilities and so on. So our government appoint as committee under the chairmanship Dr. Rangarajan. He pointed out that financial inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost.

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On the basis of committees report, the Reserve Bank of India (RBI) in 2005 advised the banks to make available a basic banking “no- frills” (NF) account with low or nil minimum stipulated balances and charges. The no- frills account is similar to saving accounts of banks which to improve the outreach of the financial services to vast sections of the population in the state of Tamil Nadu.

At the banking conclave organized by Assocham, Union Finance Minister Pranab Mukherjee said, financial inclusion is a necessity for economic growth. Out of the six lakh habituates, only about 30,000 have commercial banks branches. Only around 10per cent of the populations have life insurance covers while 0.6 per cent buys general insurance policies. Merely 13per cent has debit cards and 2per cent carry credit cards. As stated in the Economic Times, that the financial inclusion is necessary for generating sustainable growth.

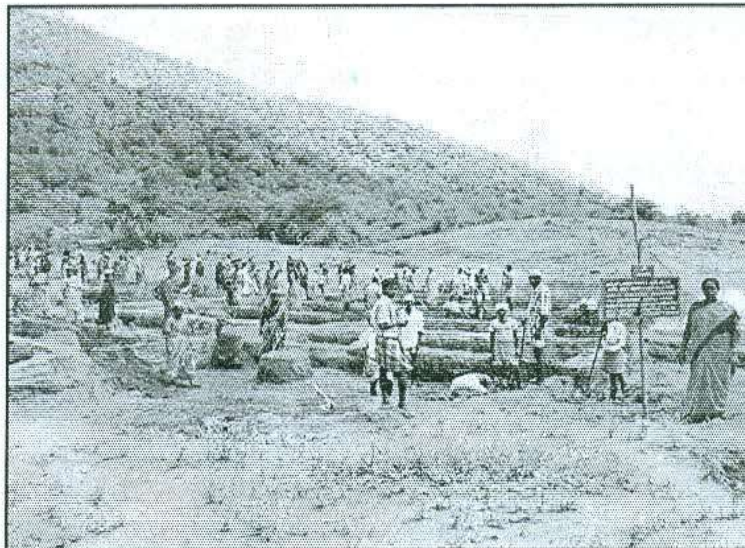
At a recent workshop on financial literacy, RBI Governor, D. Subbarao puts forth certain policy initiatives. Each district draws a road map by March 2010 to ensure that village with a population of over 2000 have access to financial services. Also, banks must strive to harness technology and low cost business model to accomplish this. All domestic public and private sector commercial banks have agreed to come up with their specific, board approved Financial Inclusion Plans (FIPs) and all banks have been asked to include financial literacy and financial inclusion criteria in the performance evaluation on their field staff.

#### **STATEMENT OF THE PROBLEM :**

The backbone of any economy can be evaluated by the strength and flexibility of its banking structure. Banking is the cornerstone of the overall economic growth of the country. Before liberalization, the Indian banking structure was largely controlled by the Reserve Bank of India and parameters like branch size and location were given paramount importance.

The Indian banking industry has come a long way from being a sluggish business institution to a highly productive and dynamic entity. This transformation has been largely brought about by the large impact of liberalization and economic reforms that allowed banks to explore new business opportunities rather than generating revenue from conventional streams. The Indian banking industry can be classified into nationalized banks, private banks and specialized banking institutions.

Banks are the nerve center of any economy. As such Indian banking industry is poised for a tremendous growth after the liberalization, privatization and globalization (LPG) in banks, and it measures the different sectors of the economy.



As Dr. Pranab Mukherjee rightly pointed out in a meeting in 15<sup>th</sup> December 2010 that a country's development depends upon only individual savings, India stands for savings of the people. As result, there are many bankers like public as well as private bankers are offering no- frills savings bank account.

The study area of palacode town has four banks. All the four bankers are offering no- frills bank account. The banks bring the people of both rural and urban to open bank account. Till date only few people have bank account. The RBI has given circular to the entire bank that all the people who have attained 18 years old can open the bank account and poor people are not able to pay and open account, for which the concepts of no- frills bank account has been introduced. Hence researcher has been made an attempt analysis the opinion of the customers who have no- frills saving bank account in Palacode town.

## REVIEW OF LITERATURE :

1. **ADB studies (2004-2007)** shows that the growth process creates new economic opportunities that are uneven. Ali (2007) explained that the current pace of poverty reduction depends not only on the rate of economic growth, but also on how the benefits of growth are shared. While data seems to show that the income poverty target of the Millennium Development Goals had been met by 2005, the decline in the number of poor from 945 million in 1990 to 604 million in 2005 can be largely attributed to the rapid growth in a few countries such as the People's Republic of China (PRC) and Viet Nam. In contrast, the incidence of poverty and its magnitude in 2005 were still very high in South Asia except in Pakistan and Sri Lanka. Some of the factors which constrained the poor include circumstances or market failures that prevent them from availing of opportunities. The result is that the poor benefit less from growth than the non-poor.

2. **Asian Development Bank (2006)** this call for inclusive growth was taken up by the Eminent Persons Group charged to advice on its future strategy. They recommended a shift from a focus of poverty reduction to a shift on inclusive growth. "In many countries, rising incomes, while reducing overall poverty, have been associated with rising disparities. These disparities, left unchecked, could threaten the fragile political consensus for economic reforms, or even political stability. The solution lies in the continuation of pro-growth economic strategies-but with a much sharper focus on ensuring that the economic opportunities created by growth are available to all-particularly the poor- to the maximum extent possible."

3. **Rajat Nag (2007)**, ADB's Managing Director General has reiterated, in his speech that three interrelated dimensions of inclusive development such as, (i)economic, (ii)social, and (iii) political-to make the development process more inclusive. The economic dimension ensures that the poor and low-income households have the ability and opportunity to participate in and benefit from the growth process. The social dimension refers to investments in health, education, human resource development and social safety nets to eliminate social inequalities, promote gender equality and women's empowerment, and bring more people into the process of growth. The political dimension covers improving the ability and opportunity of the poor and low-income people, including women and ethnic minorities, to effectively participate in the political processes.

4. **Rauniyar and Kanbur (2009)** provide a literature survey of the uses of inclusive growth within the ADB, discuss conceptual issues surrounding inclusive growth, and then propose a precise definition of it. The definition of inclusive (income) growth is growth that is accompanied by declining (income) inequality. This is nearly identical to the concept of relative pro-poor growth which is also growth which is accompanied by declining income inequality between the poor and the non-poor. The only (slight) difference is that relative pro-poor growth focuses on the relative growth and inequality of the poor versus the non-poor, while inclusive growth considers changes in inequality more generally. One can construct cases where growth is

relatively pro-poor in the sense that income growth of the poor was faster than among the non-poor (thus reducing inequality between the two groups) while it might still be non-inclusive if the income growth of the poorer non-poor was smaller than the income growth of the rich so that overall inequality is still increasing.

**5. Economic Growth In Indian Aspects discussions held (2011)** itself is a well-defined narrow concept (increase in economic output or income), 'inclusive' growth is by implication focusing on a subset of such growth episodes like, not all growth episodes are inclusive and the task is to see which ones are. This also means that growth is a necessary condition for 'inclusive growth' there is, by implication no such thing as an 'inclusive contraction.' so the question becomes what characterizes those episodes that qualify for the label 'inclusive' here two options are possible. One is a focus on process in the sense that the actual growth 'included' a lot of people as active participants in that growth, that is inclusive growth is growth that is based on inputs from a large number of people.

In this sense, it is somewhat related to the much older terms of 'broad-based' or the even older term 'labor-intensive' growth. These terms are not quite the same since 'inclusive' carries with it the notion of non-discrimination among the participants in it, while this is less clear with the other terms Thus in this sense 'inclusive growth' is broad-based growth where non-discriminatory participation in that growth is a key characteristic of that growth.

#### **OBJECTIVES OF THE STUDY :**

The study is undertaken with the following objectives.

1. To analysis the demographic profile of the no-frills bank account holders.
2. To identify the factors motivating the people to become customers of the bank.
3. To assess the opinion of the customer towards deposit schemes and the general utility services.
4. To analysis the customer attitude towards the services of the bank.
5. To offer suggestion based on finding of the study.

#### **SCOPE OF THE STUDY :**

The study comprises the perception of the people who have no-frills account. This study does not include all other services. The researcher has selected all four banks in palacode town such as State Bank of India, Indian Bank, Lakshmi Vilas Bank, and Co-operative bank.

#### **SAMPLING DESIGN :**

In palacode town there are only four banks available. The researcher has selected all four banks under census method in order to assess the opinion of the no- frills bank account holders. The no- frills account can be operated only by the special categories of the people. Such people are self- employed, national rural employment guarantee scheme, self-help groups, coolies, landless labour and so on.

According to the section 13 of the banking companies (Acquisition and Transfer of undertaking) Act 1970, the public sectors banks should not reveal any matter concerning their customers. This rule is followed by all banks. Due to problem, it was not possible to get the list of the customers and their details from banks. Hence researcher has collected data from 200 respondents by using convenience sampling method.

#### **FINDINGS OF THE STUDY :**

1. In this study majority (59.5 per cent) of the respondents are male categories.
2. About 49.5 percent of the respondents belong to age group of 35 to 45 years.
3. As regards marital status, 89.0 percent of them are married and the remaining are unmarried and widow.
4. About 49.5 percent of the respondents belong to coolies, and the rest are landless laborers, self-employed and marginal farmers.
5. Out of 200 respondents, 86 percent of them are in nuclear families.
6. Majorities (58.5 per cent) of the sample population's family size are upto 3 members.
7. About 41.0 percent of the respondent's monthly incomes are Rs 3000 to 5000, and the rest belong to other ranges.
8. Exactly 73.0 percent of the respondents have account other than no- frills account.
9. Nearly 42.0 percent keep the accounts in Co- operative bank, 29 per cent are in State Bank of India, and 16.5 per cent are in Lakshmi Vilas Bank and Indian Bank.
10. Most of the respondents (52.5 percent) visit the bank monthly on.
11. A large majority of the customers availed pass book. They said that this pass book is like other accounts pass book. They use to check entries made in the book.
12. About 75.5 percent of them got loan from banks. They received the loan like personal loan, agricultural loan, overdraft, jewel loan and so on.
13. Nearly 70 percent of them had difficulties in getting loan. Such difficulties are identified as Partiality (35.71per cent), legal formalities (24.28 per cent), technological problem (13.58 per cent), and due to sanctioning authority (26. 43 per cent).
14. About 41.5 percent of them receive the loan amount of Rs. 10000 to 15000 on the basis of differentiate rate of interest.
15. A large majority of the respondents (91.5 percent) do not use the credit card.
16. About 53 percent of the respondents do not use the Business Correspondents model, because the customers may not have more faith on Business Correspondents.
17. Majority of the respondents (72 percent) do not take any insurance policy from the bank.
18. About 74.5 percent of them do not have any problem for availing the services of the banks.
19. A vast majority (96.5 per cent) of the respondents are fully satisfied with services of through the bank.
20. Through garret ranking, it is found that majority of respondents give the highest scores to the factor "no service charge" is ranked as factor first, followed by "credit card". The least scores is awarded "overdraft facilities". (Table 1and 2)
21. The ANOVA test has been applied to find out whether the occupation influence level of awareness about the deposits schemes. The null hypothesis is accepted for the recurring deposits, fixed deposits, current account deposits, remittance of funds, credit cards, single window system, mobile banking and net banking system. Because the F- test ratio is more than 0.05 at 5 percent significant levels. (Table 3)
22. There were 12 factors identified by the researcher for the collecting opinion about the measurement of customers' attitude towards services. Each factors correlated with a common factor, through factor analysis all these factors of customers are brought under four heads namely, good quality of services, effectiveness of the loans, impartial banking services, and essential of no- frills account. (Table 4)

**SUGGESTIONS :**

1. The bankers should create awareness about No- Frills bank account and financial literacy, to general public.
2. The banks should effectively place the banners, posters, and brochures at appropriate place in an attractive manner about no- frills bank account.
3. The bank should create awareness about the various deposits schemes, loans and services to the no-frills account holders.
4. There should be needed a special staff to deal with no- frills account holders.
5. The banks should update the data in connection with Know Your Customer (KYC) norms.
6. The bankers should be friendly and loyal to the no- frills account holders.
7. There is a poor response of providing services by bank employees to these account holders which should be avoided.
8. Business Correspondence/Business Facilitators should do their work without any negligence.
9. The bank should provide over draft and general purpose credit card to no- frills account holders.

**CONCLUSION :**

The service industry has always been a vital component of all economic growth. Banking sector is not an exception too. The bank cannot sell services to the customers but they can provide effective services to the customer. The term no- frill account is a new concept which is introduced by the Reserve Bank of India. The bankers of the Palacode town follow all norms of the RBI. They are trying to implement this concept through the Business Correspondents and directly. Self Help Groups, Landless labourers, National Rural Employment Guarantee Scheme, self-employed coolise, and so on are eligible to open no- frills account in banks. It is novel scheme which helps the people to bring up to above the poverty line.

**TABLE 1 : FACTORS MOTIVATING THE CUSTOMER TOWARDS THE BANK**

Reasons	Rank							Total
	1	2	3	4	5	6	7	
Zero balance	37	19	24	27	36	34	23	200
Overdraft facilities	22	31	11	42	22	47	25	200
General Credit Card	29	25	44	36	31	13	22	200
No service charge	19	23	33	51	34	15	25	200
Effective services	41	35	20	16	17	29	42	200
Convenience/Nearest	25	45	25	7	38	23	37	200
Kind of saving	27	22	43	21	22	39	26	200
<b>TOTAL</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	

Source : Primary Data.

TABLE 2 : FACTORS MOTIVATING THE CUSTOMER TOWARDS THE BANK - GARRET SCORES

Factor	Rank							Garrets Score	Garrets Rank
	1	2	3	4	5	6	7		
Zero balance	2923	1254	1368	1350	1548	1156	483	10082	4
Overdraft facilities	1738	2046	627	2100	946	1598	525	9580	7
General Credit Card	2291	1650	2508	1800	1333	442	462	10486	2
No service charge	1501	1518	1881	2550	1462	510	525	11409	1
Effective services	3239	2310	1140	800	731	986	882	10088	3
Convenience/Nearest	1975	2970	1425	350	1634	782	777	9913	5
Kind of saving	2133	1452	2451	1050	946	1326	546	9904	6

Source : Primary Data.

TABLE 3: THE CUSTOMER AWARENESS ABOUT THE DEPOSIT SCHEME- ANOVA

		Sum of Squares	d.f	Mean Square	F	Sig.	Result
No frills A/c	Between Groups	1.580	3	527	1.074	.361	No significant
	Within Groups	96.100	196	.490			
Saving Bank A/c	Between Groups	1.312	3	.437	1.347	.260	No significant
	Within Groups	63.643	196	.325			
Recurring deposits	Between Groups	24.842	3	8.281	11.665	.000	significant
	Within Groups	139.138	196	.710			
Fixed deposits	Between Groups	13.354	3	4.451	6.266	.000	significant
	Within Groups	139.241	196	.710			
Current A/c.	Between Groups	17.011	3	5.670	10.884	.000	significant
	Within Groups	102.109	196	.521			
Scheme for NRI	Between Groups	3.232	3	1.077	1.347	.260	No significant
	Within Groups	156.748	196	.800			
Senior Citizen Dep.	Between Groups	3.503	3	1.168	1.033	.379	No significant
	Within Groups	221.652	196	1.131			
Safety Locker	Between Groups	5.926	3	1.975	2.403	.69	No significant
	Within Groups	161.094	196	.822			
Remittance of Funds	Between Groups	16.411	3	5.470	7.552	.000	significant
	Within Groups	141.969	196	.724			
Credit Cards	Between Groups	4.651	3	1.550	3.094	.028	significant
	Within Groups	98.224	196	.501			
ATM Cards	Between Groups	3.367	3	1.122	2.624	.052	No significant
	Within Groups	83.828	196	.428			
Single windows	Between Groups	7.001	3	2.334	3.442	.018	significant
	Within Groups	132.874	196	.678			
Mobile banking	Between Groups	5.833	3	1.944	3.641	.014	significant
	Within Groups	104.647	196	.534			
Net Bank System	Between Groups	12.019	3	4.006	4.577	.004	significant
	Within Groups	171.576	196	.875			

Source : Primary Data.

TABLE 4

## MEASUREMENT OF CUSTOMERS' ATTITUDE TOWARDS SERVICES OF THE BANKS

	Component				
	Factor 1	Factor 2	Factor 3	Factor 4	Communalities
Service of quality	.765	.146	.211	-.065	.656
Employee treat as politely	.739	-.165	-.134	.065	.595
Bank remains customer oriented	.701	.306	.246	.067	.650
Time taken for sanctioning loan	.001	.818	.249	-.079	0.59
Rate of interest on loan	.113	.652	-.183	.087	.479
There is no difference service	.381	.084	.782	.782	.767
There is accessibility	-.038	-.257	.772		.701
It provide O/D facilities	.061	.115	-.119	.702	.524
Business hour suitable	-.119	-.103	.243	.652	.509
It provide GPCC	.050	.093	.125	.567	.348
It does not impose service charge	.417	-.431	-.076	.501	.617
Zero balance maintain	0.42	.456	-.236	.088	.273

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