

A Study of Extent of Usage of Financial Inclusion Services in Punjab

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ABSTRACT

The study focused on evaluating the extent of usage of different financial services. The study area was three districts namely Jalandhar, Gurdaspur and Sangrur of Punjab. The study examined 500 respondents belonging to BPL sections. The Percentage and Chi-square was applied to derive the conclusions. The study established that usage was found very low along with frequency. The study recommended to enhance usage of these services with attractive products and alluring benefits after making them financially literate.

KEYWORDS: Bank account, usage, withdrawal, deposit, insurance and remittances.

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1.1 INTRODUCTION

The extent of usage of financial inclusion initiatives via bank account is of paramount importance as access does not always leads to usage. People have banking facilities in their reach but they are not utilizing them due to one reason or the other. In Punjab, basic bank account is opened for everyone and made available as a part of RBI's directions of Financial Inclusion drive. However, the actual success of financial inclusion initiatives can be measured through usage of bank accounts and other banking services.

Having a bank account for a family unit is first step in getting into the overlay of formal financial framework. But it doesn't produce income in itself, rather could be considered best as an empowering factor. The significant angle here is analyzing the utilization of opened accounts for specific purpose and frequency. It is a known fact that the vast majority of the family units open accounts just to receive Government transfers such as MGNREGA wages, Self Help Groups advantages or Government credits.

In this study, usage is measured in terms of withdrawals, deposits, insurance and remittances and for availing loan. Moreover, the chapter examines the

factors influencing the usage of these banking services by BPL households of Punjab. The chapter begins by investigating the extent of usage in terms of frequency of savings, deposits, withdrawals and ATM use by the respondents. The objective and hypothesis is given as follows:

- To empirically investigate the actual usage of financial inclusion products and services
- H₀:** There is no significant difference in the usage of zero balance accounts across the districts

In order to test the hypothesis, Chi-square Test has been employed to test the association between categorical data.

1.2 Extent of Usage of Banking Services

RBI has specific guidelines regarding dormant accounts. As per RBI's guidelines Para 5.5 Unclaimed Deposits and Inoperative/ Dormant Accounts that a savings / current account will be classified as dormant / inoperative if there are no transactions in the account for over a period of two years.

So, the account is viewed as operative if the account holder kept on executing through the account including saving, depositing, withdrawing and repaying loan etc.

Table 1.1 Extent of Savings of BPL families of Punjab

		District			Total	Chi-square (p-value)
		Jalandhar	Sangrur	Gurdaspur		
Frequency	Never	95	67	35	197	26.287 (.001*)
		(42.4)	(39.9)	(32.4)	(39.4)	
	Weekly	45	31	8	84	
		(20.1)	(18.5)	(7.4)	(16.8)	
	Monthly	54	41	46	141	
		(24.1)	(24.4)	(42.6)	(28.2)	
	Six Monthly	13	5	8	26	

	and annually	(5.8)	(03)	(7.4)	(5.2)
	Need Based	17	24	11	52
		(7.6)	(14.3)	(10.2)	(10.4)
	Total	224	168	108	500
		100	100	100	100

Note: Values in brackets are percentages

Source: Compiled from survey data

Table 1.1 illustrates the frequency of savings among BPL families of Punjab. Before contemplating the extent of utilization of accounts for availing different types of financial services, it is essential to look at the recurrence of savings among respondents. When money is not saved, neither it can be deposited and nor can be withdrawn and no ATM use be dreamt of. Jalandhar has 42.4 percent respondents who have never saved any money, followed by Sangrur with 39.9 percent and Gurdaspur having 32.4 percent respondents. There are different types of time periods for which they reported savings. Gurdaspur, Jalandhar and Sangrur have monthly saving plans of people by 42.6 percent, by 24.1 percent and 24.4 percent

respectively as people receive salary or wages after one month. Further, 20 percent households in Jalandhar and 18.5 percent in Sangrur saved on weekly basis. Weekly savings have been basically reported by daily wagers and shopkeepers. Overall, only five percent people reported six monthly and annual saving plans. Need base choice have been revealed by 10.4 percent respondents. The differences are significant between the districts confirmed by Chi-square as p-value (.001*) <.05. Hence, it can be concluded that saving patterns in all the three districts with respect to different categories are different from each other.

Table 1.2 Frequencies of Deposits and Withdrawals

		District				Chi-square
		Jalandhar	Sangrur	Gurdaspur	Total	p-value
Frequency of Deposits	Never	145	103	58	306	16.335 (.038*)
		(64.7)	(61.3)	(53.7)	(61.2)	
	Weekly	7	7	7	21	
		(3.1)	(4.2)	(6.5)	(4.2)	
	Monthly	27	37	19	83	
		(12.1)	(22)	(17.6)	(16.6)	
Six Monthly and annually	27	10	10	47		
	(12.1)	(06)	(9.3)	(9.4)		
Need Based	18	11	14	43		
	(08)	(6.5)	(13)	(8.6)		
Frequency of withdrawals	Never	143	102	65	310	18.112 (.020**)
		(63.8)	(60.7)	(60.2)	(62)	
	Weekly	3	3	7	13	
		(1.3)	(1.8)	(6.5)	(2.6)	
	Monthly	21	21	17	59	
		(9.4)	(12.5)	(15.7)	(11.8)	
Six Monthly And annually	31	16	5	52		
	(13.8)	(9.5)	(4.6)	(10.4)		
Need based	26	26	14	66		
	(11.6)	(15.5)	(13)	(13.2)		
Use of ATM	Never	145	108	67	320	20.341 (.009*)
		(64.7)	(64.3)	(62)	(64)	
	Weekly	5	14	3	22	
		(2.2)	(8.3)	(2.8)	(4.4)	

	Monthly	15	13	15	43
		(6.7)	(7.7)	(13.9)	(8.6)
	Six Monthly and annually	14	13	3	30
		(6.2)	(7.7)	(2.8)	(06)
	Need Based	45	20	20	85
		(20.1)	(11.9)	(18.5)	(17)
	Total	224	168	108	500
		(100)	(100)	(100)	(100)

Note: Values in the brackets are percentages

Source: Compiled from survey data

Table 1.2 discloses the frequency of different financial services such as deposits, withdrawals and ATM use etc. by the BPL respondents of Punjab. The frequency of deposit is a very significant factor that can determine the success and failure of any financial network. Around 61 percent respondents revealed that they had never deposited money in bank. It means larger proportion of people is showing lack of interest in deposits and banking facilities. Nearly 40 percent of BPL families deposited within different time intervals. In Jalandhar district 12 percent of respondents reported monthly and six monthly and annually as most preferred intervals of deposits. In Sangrur, 22 percent interviewees deposited on monthly basis. Around 17 percent households in Gurdaspur district favoured monthly deposits. Overall monthly deposits are the most preferred option.

Withdrawal is also viewed as a proxy for usage of financial inclusion services. As people withdraw, they add money to circulation, which contributes to economic activities. In Jalandhar, 13.8 percent had chosen to withdraw money after six months and annually. Gurdaspur has 15.7 percent and Sangrur has 12.5 percent residents who reported monthly withdrawals. Overall, a significant proportion of 62 percent respondents had reported that they never withdrew money.

ATM use is also an important factor. As people use ATM to withdraw, they add money to circulation; which helps the economic system. Overall, 64 percent interviewees reported that they have never used ATM. Only 17 percent examinees are using it as and when required.

Table 1.3 Evaluation of Usage for other Financial Services

Indicators	Categories	District			Total	Chi-square p-value
		Jalandhar	Sangrur	Gurdaspur		
Availed any loan	No	131	77	59	267	6.256 (.044*)
		(58.5)	(45.8)	(54.6)	(53.4)	
	Yes	93	91	49	233	
		(41.5)	(54.2)	(45.4)	(46.6)	
Sources of availing loan	Not availed any loan	131	77	59	267	12.401 (.015*)
		(58.5)	(45.8)	(54.6)	(53.4)	
	Formal source	25	18	19	62	
		(11.2)	(10.7)	(17.6)	(12.4)	
	Informal source	68	73	30	171	
		(30.4)	(43.5)	(27.8)	(34.2)	
Reasons for not availing loan	Procedural Formalities	35	16	08	59	36.815 (.001*)
		(15.6)	(9.5)	(7.4)	(11.8)	
	No need for loan	13	09	07	29	
		(5.8)	(5.4)	(6.5)	(5.8)	
	Need a loan but worried about repayment	10	16	22	48	
		(4.5)	(9.5)	(20.4)	(9.6)	

	Need a loan but interest rates are too high	23	13	09	45	
		(10.3)	(7.7)	(8.3)	(09)	
	Security/ mortgage issue	43	23	06	72	
		(19.2)	(13.7)	(5.6)	(14.4)	
NA	100	91	56	247		
	(44.6)	(54.2)	(51.9)	(49.4)		
Purposes of availing loan	NA	123	78	57	258	22.112 (.015*)
		(54.9)	(46.4)	(52.8)	(51.6)	
	Purchase of house/land/property	12	09	09	30	
		(5.4)	(5.4)	(8.3)	(6)	
	House repair/ construction	35	25	10	70	
		(15.6)	(14.9)	(9.3)	(14)	
	Purchase of consumer durables	34	31	13	78	
		(15.2)	(18.5)	(12)	(15.6)	
	Social /Religious ceremonies	16	21	09	46	
		(7.1)	(12.5)	(8.3)	(9.2)	
	Repayment of old loan	04	04	10	18	
		(1.8)	(2.4)	(9.3)	(3.6)	
Security for loan	NA	129	84	58	271	15.684 (.003*)
		(57.6)	(50)	(53.7)	(54.2)	
	With collateral	57	64	23	144	
		(25.4)	(38.1)	(21.3)	(28.8)	
Without collateral	38	20	27	85		
	(17)	(11.9)	(25)	(17)		
Guarantor for loan	NA	136	98	79	313	18.505 (.018*)
		(60.7)	(58.3)	(73.1)	(62.6)	
	Family member	19	13	06	38	
		(8.5)	(7.7)	(5.6)	(7.6)	
	Relative	34	39	13	86	
		(15.2)	(23.2)	(12)	(17.2)	
	Friend	26	18	06	50	
		(11.6)	(10.7)	(5.6)	(10)	
No guarantor	09	0	04	13		
	(4)	(0)	(3.7)	(2.6)		
Usage for remittance	Once in a year	03	02	07	12	15.878 (.044*)
		(1.3)	(1.2)	(6.5)	(2.4)	
	Twice a year	42	26	17	85	
		(18.8)	(15.5)	(15.7)	(17)	
	3-4 times a year	39	30	12	81	
		(17.4)	(17.9)	(11.1)	(16.2)	
	Need based	24	17	06	47	
		(10.7)	(10.1)	(5.6)	(9.4)	
	NA	116	93	66	275	
		(51.8)	(55.4)	(61.1)	(55)	

Usage for insurance	No	49	44	48	141	18.836 (.0001**)
		(21.9)	(26.2)	(44.4)	(28.2)	
	Yes	175	124	60	359	
		(78.1)	(73.8)	(55.6)	(71.8)	
	Total	224	168	108	500	
		100	100	100	100	

Note: Values in brackets are percentages

Source: Compiled from survey data

Table 1.3 illustrates the usage of other financial services such as availing loans, remittances and insurance etc alongwith the issues associated with the usage of these services. Borrowing is also an important phenomenon while considering usage of accounts. The proportion of people using accounts for availing loans is very low. Overall 46.6 percent respondents have availed loan. However, only 12.4 percent households have availed loan from formal sources. They have availed loan from a bank, a co-operative society and a non-banking financial institution. A significant proportion of around 34.2 percent has turned to non-formal sources for fulfilling their financial needs. If district wise comparisons are made, Gurdaspur district has highest percentage, i.e., 17.6 percent who are availing loan from formal sources, followed by Jalandhar and Sangrur.

As far as reasons for not availing loan are concerned, almost 14 percent BPL heads have revealed problem of security and mortgage while availing loan. They are of the view that if they can provide security, then why they would take a loan. They can mortgage the property and get loan even without any kind of hassle from informal channels. Then another reason advocated for not availing loan is procedural formalities. Around 11.8 percent BPL families have disclosed that paper work is too much while availing loan from formal sources. Further nine percent respondents have revealed that they were worried about repayment and interest rate charged on the amount borrowed.

While enlisting the purposes of availing loan by the respondents, 15.6 percent have revealed the borrowing of money for buying consumer durables such as refrigerator, T.V, water purifiers and two wheelers etc. House repair and construction is also an important purpose for borrowing funds. Almost 14 percent examinees have availed loan for this cause. Even nine percent have used loans for social and religious ceremonies. This kind of use of funds will result in defaulting of loans and failure of spirit of the policy initiated. About three percent have also taken loan to repay the old one.

Provision of security and mortgage of property is a mandate while availing loan. Here 28.8 percent respondents have to offer property as security before borrowing funds. On the contrary, 17 percent availed loan without any collateral. The respondents have revealed that they are even ready to offer their property such as house, small land area or gold but they can't understand procedural formalities and paper

work for filing loan application from formal sources. Mostly they get loan with the reference of a friend or a relative. Around 17 percent reported support from friends to get a loan whereas 10 percent took the help of their relatives.

Remittances are also taken into account for examining the usages of accounts opened under the drive. Near about 55 percent BPL households, in all the selected districts have not used their accounts for remittances as they don't know how to do the transactions or they don't have any member residing in other countries or other parts of the country. Remaining 45 percent respondents reported to have transfers from members living abroad or other types of transfers viz once, twice, three to four times a year and as per need. Around 17 percent examinee revealed transfers twice, 16.2 percent are getting 3-4 times a year and 9.4 percent are receiving on the need basis. Households having members abroad are still using these accounts for availing remittance services than other counterparts.

Insurance service is also added under financial services. A significant proportion around 71.8 percent have availed insurance service. But few of them reported that they have taken insurance as agents of companies convinced them to get insurance policy. As a result majority got themselves insured and it resulted in usage of accounts also.

In short, it can be concluded that 39.4 percent respondents don't save at all and around 60 percent neither deposit nor withdraw their money. Major problem here is again vicious circle of poverty. Low income, low savings; which results in low deposits and low withdrawals. The study revealed that 36 percent examinee use ATM, around 46 percent used their accounts for availing loan, 45 percent used for remittances and around 70 percent respondents used for insurance availing services. Mostly they use their accounts to withdraw money transfers under Government schemes. Hence, around 40 percent respondents have reported usage of accounts opened under financial inclusion drive to avail different types of financial services. Actually people are not using these accounts regularly and frequency has also been found very low. A significant percentage has reported banking transaction between six months to twelve months. Overall p-values (.038*, .020*, .009*, .044*, .015*, .001*, .015*, .003*, .018* and .044*) <.05, providing strong evidence against null hypothesis. It can be concluded that difference in usage of zero balance accounts with respect to various financial inclusion services has been found significant between

the districts. Overall, Gurdaspur district is leading in usage of various facilities though the number is also not big for the districts as compared to the other two districts.

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Annexures

Q1. How regularly do you save?

1).Never 2) Weekly 3)Monthly 4)SixMonthly 5) Need Based

Q2: Have you availed of cheque book facility from the bank?

1)Yes 2)No 3) Noidea

Q3: Do you regularly deposit money in your bank account? What is the frequency of deposits?

1).Never 2) Weekly 3) Monthly 4)SixMonthly 5) NeedBased

Q4: Do you regularly withdraw money from your account? How often do you withdraw money from your account?

1).Never 2) Weekly 3)Monthly 4) Six Monthly 5) NeedBased

Q5: Do you have an ATM-cum debit card? How often do you use the ATM-cum debit card?

1).Never 2) Weekly 3)Monthly 4)SixMonthly 5) NeedBased

Q6. Have you or any household member ever availed of a loan?

1)Yes 2)No

Q7 .From where was the loan availed of?

1)FormalSource 2) Informalsource 3) NA

Q8. If answer to Q6 is no, why has the household never availed of a loan?

1) No need for a loan 2) Need a loan but worried about repayment

3) Need a loan but interest rates are too high

4) Security/mortgage issue 5) Procedural Difficulties 6) NA

Q9 If answer to Q8 is yes, for what purpose was the loan availed of?

1) Purchase of house/land/Property 2) House repair/construction

3) Purchase of consumer durables 4) Social /Religious ceremonies

5) Repayment of old loan 6) NA

