

CHAPTER I

INTRODUCTION

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1.1 Financial Inclusion:

Financial inclusion is an emerging paradigm which plays a major role in eradicating poverty. It is the process of delivering financial services, including payments, savings, credit, etc., to people of low-income and underprivileged sections of the society at affordable costs. It is otherwise called as ‘Inclusive Financing’. Financial development drives economic development either through supply pushing or demand pulling process. Financial Inclusion opens up opportunities for the marginalized poor to break vicious circle of poverty. It starts with access to banking services in the nonexistence of price and non-price barriers. The access to bank products and services including basic savings bank account, customized savings products, remittance, payment, insurance, healthcare, mortgage, financial advice, entrepreneurial credit, and social security payments and so on.

1.2 Need of the Study:

In India majority i.e., 69 per cent of the population are living in rural areas with poor socio-economic background and low accessibility of banking services. The 11th Five Year Plan (2007-12) documented that significant segments of the Indian population had been excluded from the growth over the previous decade and addressed financial inclusion a top priority. Financial exclusion is not only a problem for financial development but also a question of economic efficiency in India.

1.2.1 Financial Exclusion:

Exclusion of people from affordable credit, savings, insurance, productive assets and financial counseling is defined as financial exclusion. A small loan, a saving bank account and an insurance policy can make a great difference to poor and low income family, these exclude them from most basic financial service provided by the financial sector and this leads to financial exclusion. The following are the five major forms of financial exclusion:

- i. access exclusion
- ii. product exclusion
- iii. condition exclusion
- iv. price exclusion
- v. self-exclusion

1.3 Statement of the Problem:

In recent years, there has been a sizeable widening and deepening of the Indian financial system, of which banking is a major component. But there are concerns that banks have not been able to reach and bring vast segment of population, especially the underprivileged sections of the society, into the fold of basic banking services. Such a high level of financial exclusion of the underprivileged section of the society, especially low-income households, mainly located in rural areas, has remained a major concern of policy makers for taking financial inclusion initiatives. People who save by informal means rarely have the benefit of the interest rate and moreover, these saving channels are much less secured than formal saving facilities. Likewise, lack of formal credit leads to dependency on non-formal providers like money lenders.

In this context, an investigation into financial inclusion among the rural households in a selected district like Tirupur assumes added importance as it would provide more insights into the overall status of financial inclusion/exclusion at household level.

1.4 Objectives of the Study:

1. To review the extent of financial inclusion/exclusion in rural areas of Tamilnadu and Banking Sector Development in India and Tamilnadu in particular.
2. To investigate the nature of demand for financial services in rural areas of Tirupur District, Tamilnadu.
3. To examine the supply-side and demand-side constraints of financial inclusion in the selected rural areas of Tirupur District, Tamilnadu.
4. To ascertain the views of the bankers and business correspondents of the Commercial Banks on financial inclusion initiatives in Tirupur District, Tamilnadu.

1.5 Scope of the Study:

As banking comes under public services, it must reach every citizen/person without any discrimination. To achieve universal financial inclusion the support and participation of all stakeholders like policymakers, regulators, governments, Information Technology solution providers, media and the public at large is needed. Apart from the regular form of financial intermediation, it may include a basic ‘no frills’ banking accounts for receiving payments. No-frills account is otherwise used as a saving product fit to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, and other general purposes, life and non-life insurance etc. The financial inclusion initiatives at state and district level are included in the study. The study also focuses on the initiatives taken by commercial banks, bankers and the business correspondents to promote full financial inclusion. The study in addition explores at the beneficiaries’ point of view as it tries to find out the causes for financial exclusion. It tests the efficacy of financial inclusion through the changes occurred in awareness level, economic, social and general condition of bank account holders with the extent of financial inclusion initiatives in Tirupur district.

1.6 Limitations of the Study:

The investigation into financial inclusion can comprehensively be done only after looking into both demand and supply side of it. A major limitation of this study is that, primarily demand side of financial inclusion has been looked into. Besides, the study deals mainly with two services, i.e., savings and credit, and to some extent insurance, while several other equally important services like payment and remittance facilities, mutual fund, money advice, etc. which are integral components of financial inclusion have not been dealt with. In particular,

- i. The sample respondents of the study were drawn from only 2 blocks of Tirupur district.
- ii. The views of bank officials, business correspondents and customers are collected from Tirupur district, Tamilnadu only.

- iii. The reliability of the data collected for the study (primary data) purely depends on the genuinity of the respondents at the time of interview.
- iv. Due to time and financial constraints, the study has been limited only within Tirupur district.

1.7 Schemes of Chapters:

The thesis is organized into six chapters.

- An Introduction of the theme, need of the study, statement of the problem, objectives of the study, scope of the study, limitations of the study are given in the **Chapter One**.
- The status/extent of Financial Inclusion across the world and the various researches carried out with respect to the study are presented under the heading of Review of Literature in **Chapter Two**.
- The research methodology consists of hypothesis of the study, research design, sampling design, period of the study, data collection method, data collection instruments, pilot study conducted and tools of analysis are outlined in **Chapter three**.
- The extent of financial inclusion/exclusion in rural areas of Tamilnadu and Banking sector development in India and Tamilnadu in particular are reviewed in **Chapter Four**.
- The Data analysis and interpretation are categorised into Section I, II and III in **Chapter Five**.
- The summary of findings, suggestions and conclusion are presented in **Chapter Six**.