CHAPTER II

REVIEW OF LITERATURE

REVIEW OF LITERATURE

The literature on Financial Inclusion is quite young in India. The theoretical and empirical literature available on financial inclusion and financial exclusion deals with a number of dimensions. This chapter has been organized under three sections. Section I contains a review of Banking Sector Development in India and Tamilnadu. Section II contains the specific issues on concepts and definitions of financial inclusion/exclusion; determinants/factors of financial inclusion/exclusion; nature of demand for financial inclusion, consequences of financial exclusion, rationale for financial inclusion, and role of financial inclusion in rural development and relevance of financial inclusion in the present day context. Section III contains review of the extent of financial inclusion/exclusion in rural areas of Tamilnadu.

Section – I

2.1 Financial Inclusion and Banking Sector Development

Khan and Fozia (2013)[1] in their research article "Growth and Development in Indian Banking Sector" stated that the technology enables increased access of the banking system, increases cost effectiveness and makes small value transactions possible. Technology allows transactions to take place faster and offers unparallel convenience through various delivery channels. It enhances choices, creates new markets and improves productivity and efficiency. Effective use of technology has a multiplier effect on growth and development of Indian Banking Sector.

Paramasivan and Selvam (2013)[2] in their research article "Review of Performance of Commercial Banks in Tirunelveli District, Tamil Nadu" revealed that Commercial Banks in India have traditionally focused on meeting the short-term financial needs of industry, trade and agriculture. The study considered the banking network, deposits and advances positions and sector wise advances by the Commercial Banks in Tirunelveli district during the study period 2010-11.

Tripathy and Pradhan (2014)[3] in their research article "Banking sector Development and Economic Growth in India" investigated the short-run as well as long-run relationships, and also causality relationships between banking sector development and the economic growth of India. They argued that banking sector development substantially affected economic growth. They found strong evidence that banking sector development caused economic growth in the Indian economy, especially in the period between 1960 and 2011, covering 52 years of the post-independence period for India.

Jagtap (2016)[4] in his article “Financial Inclusion and Growth of Banking Sector in India” mentioned that financial inclusion promotes thrift and develops culture of saving, improves access to credit both entrepreneurial and personal emergency and also enables efficient payment mechanism. For achieving growth of business, banks have to take on the role of an advisor for poor and disadvantaged as the right advice at a difficult time can go a long way.

Sibi and Ananth (2016)[5] in their study “Financial Inclusion: Role of Banking Services in Tamilnadu”, revealed that financial inclusion does not stand for delivery of financial services for all at all cost. But it means that the delivery of financial services and products at affordable costs. It plays a crucial role to remove away the poverty from the country. It is an attempt to identify the steps taken by the banks in the selected banking services for financial inclusion and to find out the relationship between availability, accessibility and usage of banking inclusion. It has concluded that there has positive and significant relationship between accessibility, availability and usage of the services.

Gogia (2017)[6] in his study “Financial Inclusion: Role of Banks” stated that the issue of financial inclusion is a development policy priority in many countries. It is opined that the use of technology plays an important role in leveraging banking services to rural areas as it lower the cost of maintaining the account. Also there should be convergence between regulator, banks, telecom companies and software companies. Financial literacy and credit counselling programmes can create critical mass for financial services which make financial inclusion viable.

Section - II

2.2 Financial Inclusion and Financial Exclusion

2.2.1 Issues on Concepts and Definitions

Defining financial inclusion is important for developing a conceptual framework and categorising the primary factors which influence it. The Reviews of literature reveals that there is no commonly accepted definition for financial inclusion. The definition varies across countries and regions which depend upon the level of social, economic and financial progress of that place and priorities of social concerns.

Leyshon and Thrift (1995)[7] in their research paper "Geographies of Financial Exclusion: Financial Abandonment in Britain and the United States" described that financial exclusion as the process that serve to prevent certain social groups and individuals from gaining access to the formal financial system.

Sinclair (2001)[8] in his study "Financial Exclusion: An Introductory Survey, Report of Centre for Research in Socially Inclusive Services" reported that financial exclusion means the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions.

Raju (2006)[9] in his study "Financial Inclusion: Reaching the unreached" pointed out that the term 'financial inclusion' was coined in the British lexicon as they found that nearly 7.5 million persons did not have a bank account. In the Indian context the concept emerged prominently in the post-liberalization period with the rising exclusion in the country. Hence, it is necessary to understand the concept of financial exclusion before defining financial inclusion.

Kempson (2006)[10] in his study "Policy Level Response to Financial Exclusion in Developed Economies: Lessons for Developing Countries" pointed out that there are gradations of financial exclusion/inclusion. These range from those who are 'hyper-included' to those who are 'unbanked'. The 'unbanked' are excluded by the banks and are without any form of transactional bank account and have no access to mainstream financial services. In between these extremes, there are 'under banked' or the marginally banked ones, i.e. those who have a bank account but do not use it regularly or adequately to manage their money.

Arunachalam and Ramesh (2008)[11] in his study "Financial Inclusion: Considerations and Recommendations for UNDP" expressed that financial inclusion should be about going beyond savings bank accounts and consumption credit, to devise/deliver financial products that can help in overcoming market imperfections and facilitate risk/vulnerability management by (and for) the poor in the context of their fragile livelihoods and the vicious cycle of poverty, often caused by structural weaknesses and other factors.

Sarma and Mandira (2008)[12] in their study "Index of Financial Inclusion" emphasized that financial inclusion is a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. However, unless a service is available, the question of accessing the service does not arise. Hence, financial inclusion can be redefined as a process that enhances availability, smoothens accessibility and ensures usage of the basic financial products and services for all sections of the society. It is this definition that has been used as a yardstick throughout this study.

Majumdar and Gupta (2013)[13] in their study "Financial Inclusion in Hooghly" revealed that the scheme has been largely unsuccessful in the financial inclusion of excluded categories such as scheduled castes, scheduled tribes, Other Backward Classes and those who are less educated in Hooghly district of West Bengal. Households belonging to minority communities, backward classes, people who are below the poverty line, illiterate, people working as agricultural labourers and workers often on daily wage basis were the most excluded. The important role of cooperative banks in providing no-frills accounts was seen in the district. Cooperative banks have to be given greater emphasis to attain the goal of financial inclusion. The banks, panchayats and district administration should be more proactive to make the mission successful. It was to be acknowledged that the provision of no-frills accounts in the district may be successful in including some excluded households but there is no doubt that the financial system, while providing no-frills accounts, has worked in a way that favours the economically and socially powerful. Commercial banks should acknowledge that the high volume of deposits that these poor households bring in together can make them profitable customers, even though the transaction cost of serving them is high and the per account profit margin low.

2.2.2 Determinants of Financial Inclusion/Exclusion:

Basu and Srivastava (2005)[14] in their study "Scaling-up Microfinance for India's Rural Poor" opined that the Indian Government's polices like persisting interest rate restrictions, government's interference in rural banks, high fiscal deficits, etc. make things difficult from the banks' perspective. It is creating a 'financial climate' that is not conducive to lending in general, and rural banking in particular. The researchers also identified that collateral and bribes as two important roadblocks that rural households face when they attempt to take loan from a bank. Banks require collateral to give loans.

Mahendradev (2006)[15] in their study "Financial Inclusion: Issues and Challenges" emphasised that the formal banking institutions, looked at inclusion both as a business opportunity and social responsibility. The role of the self help group movement and microfinance institutions is viewed as important to improve financial inclusion. It is concluded that the risk elements of small and marginal farmers and other vulnerable groups have to be taken into account in framing policies for financial inclusion.

Ramji (2007)[16] in his study "Financial Inclusion in Gulbarga: Finding Usage in Access" emphasised that the bribes, ranging from 10 per cent to 20 per cent of the loan, are common in all formal financial institutions including banks, RRBs and credit cooperatives as per the Rural Finance Access Survey 2003 report. Further, the average time taken to process a loan application is almost 33 weeks in a commercial bank. Such cumbersome and costly procedures make it unattractive for households to rely on formal finance. The evidence from around the world has also shown that cultural norms, age and gender are important determinants of access to finance.

Sinha and Subramanian (2007)[17] in their study "The Next Billion Consumers: A Road Map for Expanding Financial Inclusion in India" highlighted that the leading reason for financial exclusion is the lack of a steady and substantial income. It implies that people have little incentive to open a savings account and are not likely to qualify for a loan. The percentage of population below the poverty line

(BPL) also determines the level of financial exclusion. A higher share of BPL population results in lower demand for financial services as the poor may not have savings to deposit in savings banks. Lack of formal employment throws up additional barriers to inclusion in the formal sectors. For some consumers, just one major impediment prevents them from participating in the formal sector. For others, a combination of factors leads them to the informal sectors.

Agarwal (2008)[18] in his research paper "The need for Financial Inclusion with an Indian Perspective" observed that cost, non-price and behavioural factors are very important in limiting the spread of financial inclusion. Transaction Cost which remains high for both banks and clients is one of the important hindrances from demand and supply side perspective. Poor do not utilize the financial services as they find it costly and unaffordable. It is also highlighted that the behavioural aspect as another important factor. Many people do not use formal financial services because they are not comfortable using it for various reasons, like difficulty in understanding languages, various documents and conditions associated with these services, etc.

Navin Bhatia et al. (2010)[19] in their study "Financial Inclusion in the Slums of Mumbai" conducted study in Mumbai the largest slum in Asia, in which four slums, between 40 and 150 households were purposively selected, and 30 per cent of the households were selected from each slum randomly. The study found only two per cent of the selected respondents had loan accounts with the banks, while 10 per cent of the respondents had taken loans from other sources. The mobile penetration at 38 per cent of the respondents marginally higher than the banking penetration at 33 per cent, while 70 per cent of the mobile owners had bank accounts, over three-fourths of the bank account holders had mobile phones. The number of such accounts formed an insignificant 0.77 per cent of the total deposit accounts.

Mehta (2011)[20] in his article "Financial Inclusion through Technology for bottom of the pyramid masses with Business Correspondents of Mumbai" discussed the successful model of Micro Finance Institutions (MFIs) wherein the client is serviced at the doorstep without the physical infrastructure. He has stressed that technology strategy should be holistic with multi sectoral and multi disciplinary process. Business Correspondents must protect and sustain the image of parent bank.

Anjum and Rajeswari (2012)[21] in their article "Role of Private Sector Banks for Financial Inclusion" have attempted to analyse the geographical distribution of private sector banks in India and its impact on financial inclusion. The study evaluated the correlation of number of private sector bank branches with economic freedom and ratio of development expenditure of states to gross state domestic product.

Devi (2013)[22] in his study "Financial Inclusion with branchless banking" examined efforts of the Reserve Bank of India and the Government of India to increase banking penetration in India. It is highlighted that innovation in BC/BF model is needed to suit the diverse work culture and social milieu.

Singh (2013)[23] in his article "A Road to Financial Inclusion through the Activities of UIBs (Registered Money Lenders) in Manipur" accepted that United Industrial Banks are playing an important role in the financial inclusion and socio-economic development of the state in particular and the whole country in general. Along with the measures to regulate UIBs and to protect the interest of public depositors, the author felt that certain measures should also be taken by the RBI and the state governments in order to develop these UIBs.

Shejal (2013)[24] in her study "Role of Commercial and Co-operative Credit in Agriculture and Industry in Sangli District" analysed the role of Commercial and Co-operative Credit in Agriculture and Industry in Sangli district during 2001-2010. The author found that Sangli district in the state of Maharashtra is a progressive one. It is concluded that finance prerequisite for producer and consumer, as per the concept of financial inclusion, lead bank scheme was successful in providing the financial services at low cost of the common man. The credit plan calls for still higher allocation and utilisation of finance on wider scale so as to increase the production and productivity both intensively and extensively. The cost of loan was to be further reduced and loan waiving was to be prevented to regulate the financial sector.

Shettar (2013)[25] in his article "Analysis of Social and Economic Impact of Deployment of Funds in Union Bank of India on Beneficiaries" focussed on the social and economic impact of deployment of funds in Union Bank of India on beneficiaries. The author selected a sample size of 300 beneficiaries of Union Bank of India in Dharwad for the study. It is concluded that the advances of UBI have similar socio-economic impact of urban and rural beneficiaries. There has been a considerable change in the net income of the beneficiaries after obtaining credit from Union Bank of India. The timely release of advances by Union Bank of India increased the beneficiaries' income level, assets, status, employment, level of education.

Kumar and Harikumar (2013)[26] in their study "Financial Awareness of the Customers of District Co-operative Banks in Kerala: A Study" analysed the financial awareness of the customers of District Co-operative Banks in Kerala during the year 2013 with the objective. The study was based on primary data collected from 320 customers of DCBs. Among various financial services, the respondents were found well aware of the use of cheque book and they were not aware of ATMs, Credit/Debit Cards, Online money transfer, mutual funds, Internet and mobile banking, money advice and credit counselling etc.

Bagli and Dutta (2013)[27] in their study "Financial Inclusion of the rural women: A study on self-help group in Bankura district, West Bengal" analysed the performance of SHGs in the intensity of financial inclusion of the rural women in Bankura District, West Bengal. The authors have concluded that the SHGs brought the poor women under the purview of the formal financial institutions. This cross-section analysis revealed that the participation in SHGs made a smooth path of financial inclusion for the rural women.

Sarania and Maity (2014)[28] in their research article "Self Help Groups (SHGs) and Financial Inclusion – A Case Study in Baksa district of Assam" argued that how the Self Help Groups helped to improve financial inclusion in Baksa district of Assam during the year 2014. Based on the results the author concluded that SHG members be given a better understanding on financial services such as opening of savings account in formal institutions, participation in fixed/recurring deposit scheme, and availing of life insurance for the entire family. NGOs and other agencies need to increase the awareness by providing proper information and training to reach the currently un-reached segments of population and should motivate members to take up more productive activities to enhance the income of the household in order to avail these facilities.

Koorse and Kavitha (2015)[29] in their research paper "A study on Banking Penetration in Financial Inclusion with special reference to Tamilnadu" revealed that banks have managed to penetrate a vast section of the state. A good banking performance would indicate that financial inclusion is being achieved. Thus, the performance of banks would directly relate to financial inclusion in the state of Tamilnadu and India.

Kumar and Balasubramanian (2015)[30] in their research paper "Economics of the Business Correspondent Model" followed the business correspondent model by surveying banks and business correspondents. They found that a number of factors contribute to the success of a BC such as the selection of a BC by a bank, proximity of the BCs to the bank branch; a village with significant population that can be potentially tapped; reliable working of technology instruments; and transparency regarding remuneration of BCs.

2.2.3 Nature of Demand for Financial Inclusion (Financial Services):

Mohan (2006)[31] in his article "Economic Growth, Financial Deepening and Financial Inclusion" opined that the changing structure of Indian agriculture is increasing the demand for banking facilities. As the developmental activities in rural areas are increasing, greater is getting the demand for banking activity in these areas. Along with growth of rural infrastructure, there is also likely to be an increase in rural non-farm activities, such as repair activities, education, housing, restaurants and medical services. These activities, both traditional and emerging ventures, would be available for financing by the banking sector.

Karmakar et al., (2011)[32] in his research article "Towards Financial Inclusion in India" cited that the study conducted by Ruthven in 2002 which revealed that life-cycle purposes (birth, marriage, death) were the primary motivations for raising and spending lump sums of money. Health spending and house constructions were also found to be important reasons for saving or borrowing large sums of money.

Deogharia (2013)[33] in his article "Financial Inclusion and Micro Finance in Jharkhand: Role of SHGs" observed that the local NGOs initiated the women to form SHGs under the Block Development Employment Scheme supported with a grant. The result shows that there is a significant relationship between participation in SHGs and livelihood income or we can say that participation in SHGs had a positive effect on livelihood income.

2.2.4 Costs and Consequences of Financial Exclusion:

Leeladhar (2005)[34] in his study "Taking Banking Services to the Common Man - Financial Inclusion" stated that consequences of financial exclusion will vary depending on the nature and extent of services denied. Some of the important consequences include increased travel requirement, higher incidence of crime, general decline in investment, difficulties in gaining access to credit or getting credit from informal sources at inflated rates and increased unemployment, etc. These may lead to social exclusion.

Chanana (2007)[35] in his study "Financial Inclusion in India: Industry Trends and Policy beyond Microfinance", pointed out that the consequences of financial exclusion are different for different levels. At the macro-level, exclusion limits growth prospects whereas at the individual, micro-level, it results in a susceptibility to cash flow disruptions, inability to benefit from interest rates, and lack of long-term financial security and planning through saving opportunities. It is concluded financial exclusion can impose significant costs on individuals, families, society, banks and the economy as a whole.

2.2.5 Rationale for Financial Inclusion:

Kelkar (2008)[36] in his study "Financial Inclusion for Inclusive Growth" highlighted that the degree of 'publicness' in 'financial inclusion' may be different from the stand point of a typical public good like say 'defence', but there is no doubt that financial inclusion meets the two criteria of non-rivalness in consumption and non-excludability of public good to a large measure and to that extent it is a 'quasi-public good'. According to him, there are a number of positive externalities associated with financial inclusion. First, it brings the advantage of network externality as the value of the entire financial system increases and second, the consequent fuller participation of all in the financial system makes monetary policy more effective and thus, enhances the prospects of non-inflationary growth. This reflects the quasi-public good nature of financial inclusion. Providing access to financial services is, therefore, increasingly becoming an area of concern for the policymakers for the obvious reason that it has far reaching economic and social implications.

2.2.6 Role of Financial Inclusion in Rural Development:

Gomathy (2015)[37] in her study "An Overview of Financial Inclusion and rural development in India" stated that inclusive growth is possible only through proper allocation and accessing of all the resources from top to bottom. The main objectives of this study were to know the rural development taken by the banks for financial inclusion, to examine the difficulties involved in the adoption of financial inclusion and also to enhance the extent of financial inclusion. The data required for the study was collected from both primary and secondary sources. The total numbers of samples were 50. The study was conducted among the banks in Thiruvallur district, Tamilnadu. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The government should encourage the banks to adopt financial inclusion by means of financial assistance, advertisement and awareness programs etc. to achieve the aim of 11th plan of Inclusive Growth.

2.2.7 Relevance of Financial Inclusion in the Present Day Context:

Joseph (2007)[38] in his study "Financial Inclusion for Inclusive Growth" emphasised that higher, sustainable and equitable growth of the country can be attained only by making banking more inclusive through expanding the coverage of banking services by reaching the vast 'unbanked' and 'under banked' population of the country. Inclusive banking, thus, is not an end in itself but also a means to achieve balanced, sustainable and inclusive growth.

Pandi and Selvakumar (2012)[39] in their article "Financial Inclusion in India" have attempted to analyse the status of financial inclusion in India by taking the secondary data during the period 1960-2007. The significant increase in credit accounts, particularly in the urban areas, in recent years was on account of robust growth in retail, housing and consumer finance. This was mainly due to rise in the purchasing power, changing consumer demographics and high potential for growth in consumption, technological innovations in delivery of financial services/products, and recognition of retail business by the financial entities as an important part of their business activities. Overall development was only through the balanced growth. For that a structured programme is needed. Therefore, the Government of India should take steps and implement programmes to include all sectors of people in inclusion of financial services.

Ganesan (2012)[40] in his study "Bringing Financial Services to the Ordinary Man – Financial Inclusion" stated that full financial inclusion is a state in which all adult people have access to a full range of quality financial services at an affordable cost with convenience and dignity. The author concluded that a large amount of strategies were introduced for bringing the full financial inclusion but still which were not fully implemented. It was because of the adverse interest of the financial institutions adverse interest, preferences and attitudes for allowing opening bank account by poor people and other excluded people. Moreover all these strategies and policies were commonly framed for all kind of people. So the excluded segments of the population require products which were customised, taking into consideration their varied needs. There is a need to frame financial inclusion policy which is suitable for each group of excluded segments of people.

Sarmah (2013)[41] in his article "Hundred Per Cent Financial Inclusion: The Road Map Ahead" analysed financial inclusion in India and concluded that all the villages and all the blocks should have access to formal banking system to avail the facilities offered by the formal channel. Despite the vastness of our country we have no dearth of talents, resources, network to reach out to those poor and under privileged section of the society. Hundred per cent financial inclusion could be a reality as per our commitment.

Ammannaya (2013)[42] in his study "Total Financial Inclusion via Financial Literacy" stated that the main aim of financial inclusion is to achieve the economic growth and development of a nation. It was found that 51.4 per cent of farmer households did not access credit either from institutional or non institutional sources. About 41 per cent of adult population is financially excluded. From the point of view of inclusive growth, it is necessary to bring into banking fold all those who stand financially excluded at present. Financial literacy and education could help people to become informed investors aware of their rights and responsibilities. Financial inclusion of all citizens would surely help the nation in enhancing the saving and stepping up investments.

Singh (2013)[43] in his article “Financial Inclusion: An Indian Perspective” attempted to analyse the region-wide distribution of scheduled commercial banks during 2009 and 2010 and the average population per office region-wise. It showed that there had been an increase in the widening of financial inclusion during this period. The strategy for financial inclusion would lead to financial development in our country which will help to accelerate economic growth.

Gyanendra Singh (2013)[44] in his study “Inclusive Growth: Trends in India”, revealed that inclusive growth is all about expanding opportunities and capability enhancement at the economy wide and household levels. The author concluded that a majority of our population is still engaged in unorganised sectors like agriculture and as such there is an urgent need to address this issue. They are the major source of infrastructure financing especially in rural areas which is the need of the hour. This could be realised by adopting a more balanced growth approach, i.e., simultaneous investments in all the sectors.

Aparna (2013)[45] in his research paper “Working of Financial Inclusion in Nizamabad District, Andhra Pradesh” analysed to know the factual data relating to financial inclusion in Nizamabad district. The study was based on primary data collected directly from the selected households of Nizamabad district, Andhra Pradesh. From the analysis, it was found that the positive correlation between income and financial inclusion. It was observed that most of the low-income holders of bank accounts, hardly ever use them. Further most of the households took loan informal sector. They could not get loan from formal sector mainly because of lack of formal employment besides low and irregular monthly income sources.

Prabhu (2013)[46] in his study “Financial Inclusion through Cooperative Banks” emphasised that financial inclusion is a major component of “Inclusive Growth” strategy in order to bring the people who had no access so far to banks and to other financial services into the main stream. The author concluded that financial inclusion for inclusive growth in a liberalized economy could best be realized through them as they are primarily meant to serve the poor. However, to play the expected role effectively, cooperative banking and credit structure should be strong and viable and financially self-reliant. Strengthening the structure and its competitiveness should be the priority, considering the shortcomings and weakness noticed at different levels of the structure, both in rural and urban sectors.

Deokar (2014)[47] in his study "Financial Inclusion – Differences between the Government and RBI" brought out the status of financial inclusion through the differences between the Government and RBI in the year 2014. It revealed that 76 per cent of the villages were aware of services offered by banks, the survey brought out some interesting revelations. There also seems to be a lack of coordination between the RBI and the Government of India.

Bhatia and Singh (2015)[48] in their study "Financial Inclusion – A Path to Sustainable Growth" expressed that inclusive growth refers to both the pace and pattern of economic growth. It emphasizes on productive employment rather than on income redistribution. This is why inclusive growth is termed as a long run approach as it helps the deprived sections of the society to gain some standing of their own.

Suresh Aaluril et al., (2016)[49] in their study "A Study on Financial Inclusion Initiatives and Progress with reference to Indian Banking Industry in Digital Era" observed that access to banking, access to affordable credit and access to free face-to-face financial advice as major concerns. The paper evaluated the initiatives taken by the selected banks in financial inclusion and the efforts made for ICT based financial services, on the basis of the data collected from the RBI's reports and other banks reports. It also reviewed the trends in banking sector for financial inclusion, regulation, technology in India. It is concluded that financial inclusion plays a major role in driving away the poverty from the country.

Rafi (2017)[50] in his article "Digital Finance: Evolution of hard cash to Cashless transactions" emphasised that the cashless society is fitting an ever more popular matter of discussion in the media. In fact, it has been a topic of frequent debates in society for several decades now. Futurists see the establishment of such a society as inevitable and indeed in countries where electronic payments have reached a higher degree of acceptance the eventual doom of cash does not seem too distant in the future. However, the extent to which individuals can make use of the alternative systems varies greatly from country to country and so does the frequency of using the different payment methods.

Maisnam (2017)[51] in his study “Financial Inclusion for Inclusive Growth and Sustainable Development” observed that the inclusive financial system is an important component for economic and social progress on the development agenda. The Government of India has also been embracing financial inclusion as an important development priority. However, a significant percentage of households in India are still found to be financially excluded. The purpose of this study is to focus on the persistence of financial exclusion which is a serious obstacle to economic and social development in India. It calls for an inclusive growth with financial inclusion.

Section – III

2.3 A Review on the Extent of Financial Inclusion/Exclusion in rural areas of Tamil Nadu:

Mowl (2012)[52] in his study "The Role of Transaction Costs in Access to Savings and Credit" stated that the objective as to identify and quantify the transaction costs of formal savings and credit services to assess whether or not these costs help explain the low use of financial services. The results imply that improving the design of transaction costs to increase demand for financial services would require a strong role for product design innovation, as well as supportive policy and the utilization of appropriate technologies. Future supply-side studies could focus more precisely on the design features of formal and informal savings products in order to highlight commitment mechanisms and transaction costs faced by customers.

Dixit and Ghosh (2013)[53] in his research paper "Financial Inclusion for Inclusive Growth of India - A Study" emphasised that India is one of the largest and fastest growing economies of the world, but what has been the most disturbing fact about its growth is that its growth has not only been uneven but also discrete. The paper focuses on to understanding inclusive growth phenomenon its need and financial inclusion as an instrument to attain it with reference to its extent in Indian States. The research has been done using secondary data source. Analysis of natural hierarchical grouping cluster is done considering parameters like GDP per capita, literacy rate, unemployment rate and index of financial inclusion.

Kumar and Mukhopadhyay (2013)[54] in their research paper "Patterns of Financial Behaviour. Among Rural and Urban Clients: Some Evidence from Tamil Nadu, India" emphasized that there is ample evidence that the poor lack access to basic financial services. In general, the study found that population shared a similar practice of diversifying portfolios of savings, borrowing and insurance products. At the same time, the research found evidence of diverse financial needs of the rural and urban poor. Mainly, the study found that the two distinct populations differ in (a) the activities for which they use the various financial tools and (b) the degree of access to a diversified portfolio of services.

Sriram and Sundaram (2015)[55] in their research article "Financial Inclusion Index: A Customized Regional Model with Reference to Economically Most Backward Districts of Tamil Nadu, India" indicated that an attempt has been taken to investigate the extent of financial inclusion in the economically most backward districts of Tamil Nadu, India which consists of four districts namely Cuddalore, Nagapattinam, Tiruvannamalai and Villupuram. This study used customized financial inclusion index to compute the level of financial inclusion for which, the sample size was 384. There is no district in the study area found with high level of financial inclusion. The reasons were lack of income, financial illiteracy, complexity in documentation and lack of help desk to guide the needy people. It is the duty of the concerned authorities to scrutinize the status of financial inclusion reach and the people should get involved in the process to lead the financially excluded into access of financial products and services at affordable cost, time and distance.

Bhuvana and Vasantha (2016)[56] in their research article on "Dimensions for Measuring Financial Inclusion in the Rural Areas of Tamil Nadu" observed that the financial services such as timely credit facilities and accessing financial products like small saving deposits reach the rural people easily by the formal financial institutions such as banking industries. Many districts of Tamil Nadu have very low level of financial inclusion in the rural areas. The Government of India and concern authorities should consider those districts which are excluded from receiving financial services.

Chithralega and Varalakshmi (2016)[57] in his research article "ICT in Financial Inclusion" stated that the to pull millions of Indians out of poverty, inclusive growth is extremely necessary by covering large population of India with financial services. Financial inclusion is a crucial driver for such growth. Many efforts have been made to achieve the objectives of the financial inclusion and one such effort is adoption of ICT in banking sector. The role of Information Technology can be realized from the fact that it has greater population penetration and its ability to serve in remote location at low cost which is essential requirement for Financial Inclusion. According to the index of Crisil Inclusix 2013, among the various districts in Tamil Nadu, Coimbatore is the top scorer of financial inclusion and next comes Chennai in all four years.

Kapadia and Madhav (2018)[58] in their article “Financial Literacy and Financial Inclusion” indicated that the Tamil Nadu, Punjab, Andhra Pradesh, Sikkim, Himachal Pradesh, Haryana states have got medium level of financial inclusion. Although access to financial services, product usefulness, consumer protection, principle of equity, role of government body and its regulators would vary from one country to other owing to awareness, education level, maturity of financial markets, economic fundamentals, so on and so forth. What is important is that we need to learn from each other and implement what is suitable in each constituency so as to have desirable level of financial education that also takes care of consumer protection at various levels across nations.

2.4 Research Gap and Opportunity:

From the review of empirical works of different authors and their way of approach on financial inclusion with varying levels of analysis it is quite clear that these approaches have helped in coming out of more literature on the subject over the period. Most of the studies are slanted toward policy measures and initiatives necessary for furthering financial inclusion in both developed and developing countries. There are a few studies which have highlighted the need for financial inclusion of the poor and the possibility of achieving financial inclusion through microfinance and Self Help Groups. However, the research gap still persists in the areas of academic and geographical aspects.

2.4.1 Gap in Academic Aspect:

A very few empirical studies have been undertaken to know the position of financial inclusion initiatives from demand side aspect such as outreach and actual usage of the accounts opened.

2.4.2 Gap in Geographical Aspect:

Although a few studies have been conducted to assess the progress of financial inclusion initiatives in different parts of the country especially in many districts of Southern India, there are no many remarkable studies found to have been carried out in Western region of Tamilnadu.

Hence, there is a research gap of information availability regarding extent of access to financial services, the assessment of usage of the accounts opened under the financial inclusion drive by the weaker section of society residing in rural areas particularly in Western region of Tamilnadu. There is also a need to ascertain the level of awareness of the rural poor households about various financial inclusion initiatives and to examine the preference of rural households regarding sources of credit, means of remitting money, ways of managing various forms of risks associated with alternative institutions etc. It also endeavoured to make a study on the financial inclusion initiatives of Commercial Banks (CBs) identified by State Level Bankers Committee (SLBC) Tamilnadu for achieving 100 percent financial inclusion in rural areas.

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