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Examining The Determinants of Financial Inclusion In Jammu & Kashmir State

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Financial inclusion is defined as the process of providing access to financial services and timely and adequate credit at an affordable price when needed by weaker sections of society (Rangarajan Committee,2008).Availability of financial products and services is considered as an important factor in the economy of any country. In India, policy makers have been focusing lately on providing financial services available to all sections of society in order to bring them under the umbrella of main stream development through financial inclusion. Studies indicate a positive correlation between financial inclusion and socio-economic growth.In Jammu & Kashmir, State level banking committee (SLBC) has been formed which is headed by J&K bank, to keep a check on financial inclusion progress in the state. Various services are provided under financial inclusion to inculcate the habit of savings among people of the state. The aim of this paper is to study the various components of financial inclusion in the state and to identify various factors that determine financial inclusion. A number of factors were identified under different components which determine financial inclusion in the state. The research highlights that there are various reasons for low level of usage which needs to be taken care of for increasing the percentage of inclusiveness in the state.

Key Words: Financial Inclusion, Financial Exclusion, Financial Access

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I. Introduction

Financial inclusion is defined as a process of providing access to financial services and timely and adequate credit at an affordable price when needed by weaker sections of society (Rangarajan Committee,2008). Although financial inclusion concept is not new in the country but with the introduction of new measures, the access to the formal financial services has increased. With introduction of PMJDY the Financial Inclusion program, India has witnessed a paradigm change in the banking sector. Garg (2016) found that PMJDY has a broader scope where older initiatives were focused only on supply side of financial inclusion; this scheme $focuses on both demand and supply side issuesand overcomes demand barriers to increase the demand of the formal financial services. As opening of brick and mortar branches in every village is not possible of the geographical widespread the financial services are provided by Business correspondents and ATM's. Business correspondents are the agents of the bank who are locals of a village and are authorised to provide basic financial services to the people. Although business correspondent model is one of the main mode of providing services in rural areas, the appointed business correspondents are not able to provide good service, the reasons of which are many. Jessica (2014) in her study on business correspondents in Andhra Pradesh has revealed problems like delayed remuneration, lack of infrastructure, technical problems like low internet connectivity as main reasons for dissatisfaction among the service providers. SIDBI (2014) in their report on BC Model in Bihar have highlighted problems like low internet connectivity, low literacy levels, lack of infrastructure, delays in issuance of smart cards and delayed commissions in the operational structure of BC model. Whereas Standard Chartered (2014) in their report on Financial Inclusion have named 5 main barriers in achieving Financial Inclusion which are Distance to bank, Lack of Financial Infrastructure, non-availability of suitable products, failure of government and lack of physical infrastructure. Financial Inclusion is important as studies have also revealed social exclusion as a cause of financial exclusion. Sakwa (2014) studied the socio-economic impact of micro-credit among women in Kenya and found that most of the respondents agreed to the fact that they were able to make positive bond within the group and society after availing financial services. 83.8% respondents agreed to have a positive impact of micro-credit on their enterprise.Sharma (2016) examine the nexus between Financial Inclusion and economic growth in India and found that availability of financial services foster the Economic growth. Rum. *Et.al*(2012) in their study examined the data of 141 countries and indicated that financial inclusion is correlated with economic growth and human development. There are 4 components of financial inclusion Access, Quality, Welfare and Utilization. Financial inclusion is studied on these 4 components. Many authors have developed scales to measure financial inclusion on the basis of these components. Sarma (2008) has developed an index known as index of financial inclusion (IFI) to find out the financial inclusiveness in a particular area.

II. Financial profile of J&K state

Jammu & Kashmir state is of political and Economic importance to India. A plethora of measures have been undertaken by state and centre governments to bring people to the umbrella of main stream development through Financial Inclusion. The SLBC in the state is headed by J&K bank which is leaving no stone unturned for achieving total financial inclusion in the state. At present the state is having 1.22 cr active savings bank accounts which is actually more than the population of the state.19.2 lac accounts have been opened in the state under PMJDY. A total of 2005 bank branches are operating in the state. 1431 Business correspondents have been appointed by different banks in the state to provide financial services to the rural people. 2415 ATM's are also operational in the state.

III. Need of The Study

As financial inclusion is of utmost importance to our country especially in the disturbed state of J&K where we need to bring people into mainstream development through financial inclusion initiatives to refrain them from anti-social activities, the study will evaluate the performance of Financial Inclusion initiatives in the state and will highlight the issues in achieving complete financial inclusion. The highlighted demand and supply gaps can be useful to the policy makers in making future guidelines and achieving complete financial inclusion in the state.

IV. Objectives of The Study

- The objective of the study is to analyse the components of financial inclusion in select districts of the state
- To suggest measures for effective financial inclusion

V. Methodology

The study starts with construction of a scale for analysing the main components of financial inclusion.

5.1 Scale development

A scale was development keeping in view the components of financial inclusion i.e Access to financial services, Quality of financial services, welfare from the financial services and utilization of financial services. An additional component services of business correspondents was added keeping in view the importance of BC model financial service delivery process.

5.1.1 Pilot study

A pilot study was conducted in order to access the validity and reliability of the scale constructed for the purpose of the study. The study was done in Marh block of Jammu district. Responses from 50 individuals were taken for the purpose. The reliability of the scale was determined using Cronbach's alpha which came out to be .723. The validity of the scale was measured using KMO and Bartlett's test which came out to be .674.

Table 1 showing Reliability of the scale

Case Processing Summary

		N	%
Cases	Valid	50	100.0
	Excluded[a]	0	.0
	Total	50	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.723	34

Table 2 showing validity of the scale

KMO and Bartlett's Test[a]		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.674
Bartlett's Test of Sphericity	Approx. Chi-Square	317.071
	df	50
	Sig.	.000
a. Based on correlations		

5.2 Sampling Technique

For the purpose of the study 400 respondents were taken from 4 different districts of Jammu province. Jammu, Udhampur, Doda and Kathua districts were selected. Out of these 4 districts 2 are hilly area and 2 are plane area districts. Multi stage sampling was used in collecting responses. From every district 2 blocks were selected. Form every block 2 villages were selected. 100 responses were taken from each district. Respondents were selected at random from the lists provided by business correspondents appointed in the areas.

5.3 Factor Analysis

Factor analysis was applied on the data collected from the respondents to find out the main factors among the components of financial inclusion which respondents feel are important and to analyse where exactly efforts need to be put in proving better financial services to the users to bridge the demand and supply gap of the financial services provided.

Table 3 showing the important factors among the components of financial inclusion

Rotated Component Matrix[a]

	Component					
	1	2	3	4	5	6
W2	.951					
W3	.916					
W5	.898					
W1	.888					
A2		.778				
A4		.758				
A1		.714				
A5		.657				
A6		.549				
Q6			.830			
Q7			.813			
Q5			.769			
Q1				.767		
Q2				.692		
Q3				.585		
Q4				.507		
BC9					.757	
BC6					.680	
BC7					.677	
BC8					.575	
U3						.725
U1						.659
U2						.615

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.[a]
a. Rotation converged in 6 iterations.

Six different factors of financial inclusion were identified from 5 different components namely Access, Quality, welfare, utilization, business correspondents. Main factors which were identified through the results were: Credit availability through banks, Quality of service provided by banks, Access to financial services, Socio-Economic welfare, Utilisation of financial services and availability of services through Business Correspondents. The above mentioned factors explain the components of financial inclusion as perceived by the users of the financial services.

VI. Results And Discussion

Total variance explained from the factors extracted is 71%. Factor 1 (Access to financial services) accounts for 18 % variance. Factor 2 (Easy credit availability through banks) account for 15 % variance. Factor 3 (Quality of services provided by banks) account for 14 % variance. Factor 4 (Socio-economic welfare) contributes to 11 % variance. Factor 5 (Utilization of banking services) account for 8% of total variance. Factor

6 (availability of services through Business Correspondents) account for 5 % variance. Maximum variance is explained from factor, Access to financial services. The access to services is important as utilisation of the financial services depend on the easy access to these mediums. Access to financial services is measured as geographical access and demographic access. Geographical access is the measured as availability of bank or atm per 1000 sq. km and demographic access is measured as availability of bank or atm per 1 lac population in that area. The less the figures the better is the result. The determinant of this factor are availability of bank branches and location of these branches. The location of a bank branch is an important factor in deciding the footfall in that particular branch. The use of ICT has reduced the burden of transactions in a bank branch, with the increase in number of ATM people have 24*7 access to banking services. Location of atm and the user interface of the atm is also important as in rural areas people are not much tech savvy. Few years back people in rural areas were dependent on informal sources of credit but with increasing brick and mortar branches are choosing banks for credit. Credit availability is hence an important factor in banking. Easy availability of credit is a deciding factor in usage of formal sources of credit. Banks are proving various credit options under different schemes to route more people towards formal credit sources. Usage of banking services increases if better services are provided by the banks. Convenience of availing banking services attracts more users. Studies in the past have shown a positive correlation between financial services and increased socio economic status. Increased income, increased savings, affordability of better health services and quality education are the determinants of socio economic welfare of people. The utilisation of banking services can be measured by increased visits to bank branches and atm. Business correspondents are a medium to make financial services available to people in rural areas in absence of a brick and mortar branch. BC's need to provide more services to people for increased usage. BC's can increase the utilisation by proving services like opening bank accounts, offering transaction services and offering assistance in availing loans.

VII. Suggestions For Better Financial Inclusion

Financial inclusion can be increased by increasing the access to the banking services and providing financial services customised to the need of people. Following suggestions are made on the basis of observations in the field.

- Increasing access to financial services by opening more brick and mortar branches and atm.
  Opening more branches and atm will reduce the burden on the existing branches and people in rural areas will have an easy access to the banking infrastructure. There are places where people have to travel 15-20 kms for availing banking services from the nearest bank branch or an atm. reducing this gap will help in increased utilisation due to an easy access. RBI is already on this as the commercial banks get 1 bank branch licence in the urban area for 3 bank branches opened in rural areas. This step ensures increased penetration of banking outlets. More steps should be taken this regard.
- Increasing access to financial services using already existing infrastructure at village level such as post offices, public distribution system (PDS)
  Post offices and PDS have an extensive reach in the rural areas, this infrastructure can be used in providing financial services in rural areas. Post office atm's have been started by postal department in urban areas more of these need to be open in rural areas as well. PDS outlets can be used as a channel to make banking services available in rural areas. PDS agents can be made business correspondents or financial literacy centres can be opened in PDS stores to provide financial education to the ruralites.
- Strengthening the ICT network to empower Business Correspondents
  Business correspondents work in areas where brick and mortar branches are not open due to non-profitability in that area or geographical difficulties in that area. Working of business correspondents is dependent on the technology and availability of high speed internet. Lack of basic infrastructure like electricity or internet is a limitation to business correspondents. There is a need to upgrade the basic infrastructure so that BC's work effectively in service delivery.
- More recognition to Business correspondents
  Business Correspondents are appointed by banks and are connected by the nearest bank branch of that bank for the necessary support. The BC's feel lack of support from concerned bank branches. Accounts sourced by BC's are not opened by banks or there is delay in opening these accounts. BC's work on commissionbasis, they get commission for accounts sourced and transactions done by them, there is often delay in payment of their dues which creates disappointment among BC's, hence more recognition needs to be given to BC's for success of this model.
- Increasing utilization of bank accounts
  Merely opening a bank account will not solve the purpose of financial inclusion until utilization of these accounts is increased. More than half of the bank accounts opened under PMJDY in the state are dormant. More efforts need to be done in order to increase the utilisation of these accounts apart from the existing EBT opted by the government.Financial inclusion is important in many aspects, more steps need to be taken

for the increased financial inclusion. The study was limited to select districts of the state which is a limitation of the study, moreover secondary data is not easily available on financial inclusion in the state which poses a problem in certain areas.

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