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**SIGNIFICANT OF LOAN COMPONENT IN FINANCIAL INCLUSION IN RURAL VILLAGES OF KANCHEEPURAM**

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**ABSTRACT**

*“Financial inclusion may be defined as the process of access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”.*

*In short, it is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income group. : To achieve sustained, planned and structured financial inclusion, in January 2010, all private and public sector banks were advised to put in place a Board approved three year Financial Inclusion Plan (FIP) and submit the same to the Reserve Bank of India by March 2010. These banks prepared and submitted their financial inclusion plans containing targets for March 2011, 2012 and 2013. Major thrust has been given in the area of credit ie ability of individuals to access appropriate financial products and services.*

*There are number of financial institutions that provide credit facilities to the low income groups like Banks, Micro finance institutions, self help groups etc. A research has been carried out to study the significant of loan component in financial inclusion in rural villeges of kancheepuram. Different types of sources of loan taken for various purposes and reason for taking loans from formal sources are analyzed.*

**KEYWORDS:** Financial Inclusion, Rural Villages, Loan components.

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**1.INTRODUCTION:**

Banks play a vital positive in the economic development of a country. Banks are important agencies for both generation of savings of the community and leverage such funds through credit creation. They are not merely dealers of money but in fact dealers in development. The success of economic development depends essentially on the extent of mobilization of resources and investment and on the operational efficiency and economic discipline displayed by the various segments of the economy.

The banking system forms the core of the financial sector of an economy. The role of banks is particularly important in underdeveloped countries. By offering attractive savings schemes, banks generally encourage willingness to save money among the public. By reaching out to people in rural areas , they help convert idle money into effective ones. Banks also improve the allocation of resources by lending money to priority sector.

Financial inclusion actually rest on three pillars ie access to financial services, affordability of such services and actual utilization of such services. In developing countries like India, process of financial inclusion starts with opening of savings account. But at a later state, must also gave importance on providing credit facilities. Providing formal credit avenues is the major task for the banks.

## **2. REVIEW OF LITERATURE:**

Mr N Srinivasan (2012) in his article named “ Financial inclusion framework – is it inclusive?” has pointed out that “The current inclusion framework is in itself not inclusive as it keeps out institutions that provide appropriate and adequate services which vulnerable people find easy to access. A better approach would be to use those institutions that can provide such localized, small credit products and banks supporting the retailers with bulk loans. Banks can provide the expertise on credit decisions, loan monitoring and risk management along with bulk loans for retailing to the retailers.”

Mr D Rama Krishna Reddy (2012) in his article titled “Financial inclusion: Road Ahead” has examined that “Empirical evidence shows that economic growth follows financial inclusion. Boosting business opportunities will definitely increase the gross domestic product, which will be reflected in our national income growth. People will have safe savings along with access to similar products and services such as insurance cover, new entrepreneurial loans, payment and settlement facility, etc. Financial access will attract global market players to our country and that will result in increasing employment and business opportunities and finally result in economic growth. Inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social purpose.”

Dr Kabita Kumari Sahu (2013) in her research article titled “Commercial banks, financial inclusion and Economic Growth in India” has analyzed that “Financial inclusion broadly means the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. Access to financial services is in a very miserable state in the country. The key components of the inclusive growth strategy includes a sharp increase in investment in rural areas, rural infrastructure and agriculture; spurt in credit for farmers; increase in rural employment through a unique social safety net; and a sharp increase in public spending on education and health care. There is a pressing need for making banking and financial services available to every part of the country.”

Dr B S Navi (2013) in his research article titled “Financial Inclusion and Indian Banking System” Getting money for their financial requirements from a local moneylender is easier than getting a loan from the bank. Most of the banks need collateral for their loans. It is very difficult for a low income earning person to find collateral for a bank loan. Moreover, banks give more importance to meeting their financial targets and profitability. So they focus on larger accounts. It is not profitable for banks to provide small loans and make a profit. Financial inclusion is a great step to eradicate poverty in India. But to achieve this, the government should provide a less perspective environment in which banks are free to pursue the innovations necessary to reach low income consumers and still make a profit. Financial service providers should learn more about the consumers and new business models to them.”

Mr Nilanjan Bhattacharjee (2014) in his research article titled “Financial inclusion of the identified slum dwellers in Assam” has commented that “Many slum dwellers are still unaware about various financial products/services and they are unwilling to take the advantages of formal financial sector. These people are usually go for borrowing a heavy amount of loans from the informal sectors for meeting their requirements. They remain indebtedness as the debt passes from generation to generation. This will lead inherited indebtedness. They habitually park their investable surplus funds to the unorganized sectors with the expectation to earn more profit within a shorter period, but it is very unfortunate to mention here that most of these unorganized sectors usually manipulate them and try to grab their investible surplus by providing various ponzi schemes. Therefore, financial literacy and financial awareness among these groups of people are very essential and distance from the formal financial sectors is not a major factor of financial exclusion in urban areas. To create awareness and improve financial literacy level in the identified slum dwellers/ rural areas, Government of India and RBI should come forward to frame some effective policies and implement it through appropriate governance so that universal banking services can be extended to the un-served.”

### **3. SIGNIFICANCE OF THE STUDY:**

This paper tries to examine the extent of financial inclusion in rural villages of kancheepuram by analyzing significant of various loan components. It also analyses the association between the customer sector and the type of sources of loan taken for various purposes.

### **4. OBJECTIVES OF THE STUDY:**

1. To know the sources of loans available for the respondents.
2. To study the association between the customer sector and the type of sources of loan taken for various purposes.

### **5.METHODOLOGY:**

Descriptive research has been carried out to know about the type of sources of loan taken for various purposes in rural villages of Kancheepuram. The data required for this study is collected from primary sources and from secondary sources such as magazines, journals, newspapers, reports and websites like RBI, PMJDY. Multi stage random sampling is used to select the sample and sample size taken for the study is 240. Percentage and Chi Square test is used for analyzing the data and drawn conclusion based on the findings.

### **6. ANALYSIS OF DATA**

**Table 1. Demographic profile of respondents**

<b>Demographic profile</b>	<b>Number of respondents</b>	<b>Percentage</b>
<b>Gender</b>		
Male	89	37.1

Female	151	62.9
<b>Age</b>		
Upto 30	8	3.3
31-40	42	17.5
41-50	91	37.9
51-60	86	35.8
Above 60	13	5.4
<b>Marital status</b>		
Married	189	78.8
Unmarried	9	3.8
Widow	18	7.5
Divorced	9	3.8
Separated	15	6.3
<b>Educational qualification</b>		
Illiterate	33	13.8
Primary	100	41.7
Middle class	66	27.5
High school	19	7.9
Higher secondary	15	6.3
Graduates	7	2.9
<b>Occupation</b>		
Agricultural labour	145	60.4
Own business	47	19.6

Farmer	29	12.1
Private employee	11	4.6
Public/government employee	8	3.3
<b>Annual income</b>		
Upto 30000	125	52.1
30001 – 40000	64	26.7
40001-50000	5	2.1
50001-60000	1	.4
Above 60000	45	18.8
<b>Type of income</b>		
Daily	135	56.3
Weekly	4	1.7
Monthly	48	20.0
Seasonally	53	22.1
<b>Customer sector</b>		
BPL	195	81.3
APL	45	18.8

Source: Primary Data

It is analyzed from the above data that 81.3% of the respondents belong to Below poverty line. Out of 240 respondents, 62.9 % consists of female respondents out of which about 37.9 % are in the age group of 41-50. It is observed that about 78.8 % of the respondents are falling under the category of the married. It is also inferred from the above table that the most of the respondents ie 41.7 are falling under the category of primary education. Main occupation of the about 60.4% of the respondents is Agriculture labour. It is identified from the study that 52.1% of the respondents are having annual income up to Rs 3 lakhs and 56.3% respondents are earning income on daily basis.

**Table 2. Number of respondents have taken loan**

Loan taken	No of Respondents	Percentage
Yes	125	62.5
No	75	37.5
<b>Total</b>	<b>200</b>	<b>100.0</b>

Source: Primary Data

Out of Sample size of 240, 200 respondents are having savings accounts in the banks. Out of 200 respondents, 62.5% of the respondents have taken loan from the banks and financial institutions.

**Table 3. Loan taken by the respondents from various sources**

Loan taken from various sources	No of Respondents	Percentage
Banks	75	60.0
SHG	16	12.8
MFI	10	8.0
Friends and relatives	24	19.2
<b>Total</b>	<b>125</b>	<b>100.0</b>

Source: Primary Data

From the above table, it is inferred that out of 125 respondents, 75 respondents ie 60% of the total respondents have taken loan from banks.

**Table 4. Types of loan taken by the respondents**

Types of Loan	No of Respondents	Percentage
Agriculture loan	15	20.0
Personal loan	27	36.0
Gold loan	15	20.0
Vehicle loan	9	12.0
Kisan credit card	3	4.0
General credit card	6	8.0
<b>Total</b>	<b>75</b>	<b>100.0</b>

Source: Primary Data

It is analyzed from the above table that around 36% of the respondents have taken personal loans from banks for their personal expenses. 20% of them have taken both agriculture and gold loan.

**Table 5. Loan taken by the respondents from other sources**

Loan taken from other sources	No of Respondents	Percentage
SHG	16	32.0
MFI	10	20.0
Friends and relatives	24	48.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Source: Primary Data

It is inferred from above table that 24 respondents ie 48% are still depending on friends and relatives for loans.

**Table 6. Reasons for not taken loan by the respondents from banks**

Reasons	Strongly Agree	Agree	Neutral	Disagree	Total
Cumbersome procedures in banks	12	31	5	2	50
<b>Percentage</b>	<b>24</b>	<b>62</b>	<b>10</b>	<b>4</b>	
Informal sources are available nearby	14	27	6	3	50
<b>Percentage</b>	<b>28</b>	<b>54</b>	<b>12</b>	<b>6</b>	
Easy ( Timely) finance from informal sources	12	20	14	4	50
<b>Percentage</b>	<b>24</b>	<b>40</b>	<b>28</b>	<b>8</b>	
No need for Security	13	21	13	3	50
<b>Percentage</b>	<b>26</b>	<b>42</b>	<b>26</b>	<b>6</b>	

Source: Primary Data

From the above table it is clearly inferred that about 62% of the respondents have given their opinion that the reason for not taking loans from banks is because of cumbersome procedures.

Next major percentage falls on the reason informal sources are available nearby. About 54% of the respondents have agreed that there are plenty of informal sources available near to their place hence they have not taken loans from banks. It is also analyzed that the other major contribution to the analysis comes from the reason no need to provide security while taking loans from informal sources. 42% of the respondents have agreed that there is no need to provide security to obtain loan from the other formal and informal sources. About 40% of the respondents have agreed that easy and timely sources of finance are available from informal sources, hence they are not approaching banks for such loans.

**Association between Customer sector and the type of sources of loan taken for various purposes**

H0: There is no significant association between customer sector and the type of loan taken for various purposes.

H1: There is significant association between customer sector and the type of sources of loan taken for various purposes

**Table 7 Association between Customer sector and the type of sources of loan taken for various purposes**

Purpose	Sources	Customer sector		Total	Statistical Inference
		BPL	APL		
Construction	Formal	11(55)	9(45)	20	Chi-square value 6.172** df = 1
	Informal	14(93.3)	1(6.7)	15	
Marriage	Formal	6(37.5)	10(62.5)	16	Chi-square value 20.00*** df = 1
	Informal	24(100)	0	24	
Education	Formal	12(50)	12(50)	24	Chi-square value 10.06*** df = 1
	Informal	18(94.7)	1(5.3)	19	
Medical	Formal	7(41.2)	10(58.8)	17	Chi-square value 16.12*** df = 1
	Informal	20(100)	0	20	
Consumption	Formal	11(64.7)	6(35.3)	17	Chi-square value 3.821 <sup>+</sup> df = 1
	Informal	14(93.3)	1(6.7)	15	
Household	Formal	11(44)	14(56)	25	Chi-square value 14.95***



	Informal	18(100)	0	18	df = 1
Business	Formal	15(68.2)	7(31.8)	22	Chi-square value 2.06 <sup>+</sup>
	Informal	10(90.9)	1(9.1)	11	df = 1
Vehicle	Formal	10(62.5)	6(37.5)	16	Chi-square value 14.95 <sup>**</sup>
	Informal	9(100)	0	9	df = 1
Festival	Formal	5(50)	5(50)	10	Chi-square value 14.95 <sup>**</sup>
	Informal	13(92.9)	1(7.1)	14	df = 1
Pay debts	Formal	4(57.1)	3(42.9)	7	Chi-square value 2.82 <sup>+</sup>
	Informal	10(90.9)	1(9.1)	11	df = 1
Agriculture	Formal	19(65.5)	10(34.5)	29	Chi-square value 5.47 <sup>**</sup>
	Informal	12(100)	0	12	df = 1

(Figure within brackets shows percentage) \*\*\* Significant at 0.01 level \*\* Significant at 0.05 level + denotes not significant

From the above table it is inferred that there is an association between the customer sector and the type of sources of loan taken for various purposes like Construction, Marriage, Education, Medical, Household, Vehicle, festival, agriculture. Hence Null hypothesis H<sub>0</sub> is rejected. There is no significant association between the customer sector and the type of sources of loan taken for purposes like Consumption, Business and to pay earlier debts. Further it is observed that the below poverty line respondents are highly depended with informal sources while taking loan for various purposes.

#### **IMPLICATIONS AND CONCLUSION:**

Even though there are many financial institutions and banks available in the villages of kancheepuram, still 16.6% of the respondents are outside the purview of the financial inclusion.

Majority of the respondents are falling under the category of agricultural labour and below poverty line. These people are still depend on informal sources for their financial needs due to various reasons like easy procedure, no need to give security, informal sources are available nearby etc.

It is also concluded that there is association between the customer sector like below poverty line and above poverty line with the types of loan taken for various purposes.

Government should take efforts to improve the dependency of below poverty line sector for taking loans from banks for their financial needs. Fear of giving security for taking loans can be eliminated by educating about the collateral free loans and the coverage of loan under Credit guarantee scheme (CGTMSE). Procedures may be simplified for the smaller loans so that the below poverty line people will approach banks for their needs. Business correspondents model to be strengthened to educate the

public about various types of loans available in the banks and help them to overcome procedural difficulties.

Financial literacy camps may be arranged by the rural branches once in 15 days to educate the rural public about the financial products available and this will reduce the gap between the public and the banks.

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