Assessing linkage between Community and Financial Inclusion in India

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Abstract

Financial Inclusion consists of the steps towards including vulnerable groups in financial services at an affordable cost. The present study is based on impact of caste and religion, taken as two independent Variables, on the number of accounts opened with the bank, keeping education as controlled variable. ANCOVA (Analysis of Covariance) is used for investigating the relationship. Data is collected randomly from 200 households of two villages of Madhubani District of Bihar. The results reveal that there is significant impact of caste and religion on number of bank accounts possessed by a household. Hence, government should work for inclusive policy to cover entire strata of the society.

Key Words:ANCOVA,Caste, Religion, Financial Inclusion, Bihar.

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1. Introduction

Financial inclusion is essential for economic development reverberated by national and international bodies. The committee on Financial Inclusion chaired by Dr. C. Rangarajan defines Financial Inclusion as the process of ensuring 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.

Financial Inclusion is vital for improving the living condition, minimizing social exclusion among vulnerable section of the society. Financial Inclusion have been important policy goals for quite some time with a long history in India since 2005. It started with opening bank branches in unbanked areas to take formal financial services across the country.

There are several initiatives taken by Reserve Bank of India and Government of India to achieve financial inclusion such as no frills accounts, simple KYC norms, KCC, DBT and the largest financial inclusion scheme Pradhan Mantri Jan DhanYojna. The number of Jan Dhan Accounts in India more than doubled from 12 crores in 2015 to 30 crore in 2017. But the question is still there that only having bank accounts will serve the purpose of financial inclusion. Therefore, Social inclusion is important for successful implementation of financial inclusion.

2. Literature Review

Sarma&Pais (2008) in their paper tried to identify the relationship between financial inclusion and development by empirically identifying country specific factors associated with the financial inclusion. They found in their study that the development and financial inclusion in a country move parallel and close with each other. Among socio-economic and infrastructure related factors, literacy, income, inequality, urbanization and physical infrastructure for connectivity and information play positive role in enhancing financial inclusion.

Priyadarshee, Hossain &Arun (2010) in their study tried to explain the relationship between financial Inclusion and social protection programmes. They have also analyzed that the Indian post as a medium to contribute the financial inclusion in rural India. The study is based on secondary research on the official data of Indian Post as well as primary research in three states of India namely Andhra Pradesh, Uttar Pradesh and Gujarat. They have concluded that the financial needs of the people of Uttar Pradesh and Gujarat are unmet as compare to Andhra

Pradesh. They have also mentioned that the Indian post is most trusted in rural India and will be a good channel to deliver financial services helping poor as well as increasing the revenue of the India Post.

Laha,Kuri& Kumar (2011) in their paper identify the factors responsible for creating obstacle for financial inclusion in the rural district of West Bengal. There is wide interstate variation in the degree of financial inclusion. The data is analysed through Bivariate Probit Regression Model. The results show that economic status of households, education, Asset holding, Non-farm employment, Rural development and social security programmeare positively correlated with the degree of financial inclusion.

Aduda&Kalunda (2012)in their study have tried to explore the impact of literature on financial inclusion in the world and in Kenya. The main objective of their study was to find the degree of financial inclusion in Kenya, essential components of financial inclusion and the relationship between financial inclusion and financial stability. They have mentioned that the financial exclusion is a subset of social exclusion. Those people who are financially excluded cannot participate in social and economic activities of the country leading to inequality. They have concluded that access and usage are not the same but supplementary and appropriate measures are required. They have suggested that the role of the government should be carefully defined as studies show high intervention from government can be more harmful than good.

Atkinson and Messy (2013) in their working paper analyzed the role of education in financial inclusion. Demand side data is collected from the users of financial services. The skills and behaviours commonly communicated by financial education for financial inclusion include credit and debt management, day-to-day financial management, long-term financial planning and how to use financial services and products. They have highlighted the challenges faced to deliver financial inclusion through financial education. The results show that lower levels of financial literacy leads to low levels of financial Inclusion.

Dixit and Ghosh (2013) in their paper focused on inclusive growth of India through the financial inclusion. The secondary data is used for the research. Analysis of natural hierarchical grouping cluster is done considering parameters like GDP per capita, unemployment rate, literacy rate, and index of financial inclusion (by Sadhan Kumar Ghattopadhyay) on few Indian states and has been displayed by Dendrogram considering average linkage between the groups. They have found that there is no significant association between rate of financial inclusion and unemployment. Financial literacy and level of awareness continue to be a biggest hurdle in the usage of financial services/products.

Majumdar and Gupta (2013) in their articles studied the extent of financial inclusion in Hooghly district of West Bengal. It is evident that households of higher caste, higher level of education, higher income and salaried people keep a higher balance in their no-frills accounts. Most Excluded were identified as households belonging to minority communities, backward classes, below the poverty line, illiterate, agricultural labors.

Fungacova and weill (2015) in their paper studied the financial inclusion in china based on World Bank Global Findex database for 2011 and compared its growth with other BRICS countries. The results show the high level of financial inclusion in china confirmed by greater use of formal account and savings. Greater use of formal accounts and formal credits depends on high income, better education, being a man as well being older. Alternative source of borrowing depends on education and income. The use of formal credit is less frequent in china which can be challenge for further economic growth.

Gupta(2015) in her research notes discussed the Pradhan Mantri Jan DhanYojna launched by Indian Prime minister Mr. Narendra Modi as a national mission for financial inclusion. Theyojna is focused on creating awareness and financial literacy among the rural and urban households. The study was based on secondary data. It was concluded that state bank of India has opened maximum number of accounts. Uttar Pradesh appears first and Bihar on the second position in state wise account opening during this scheme in rural India. The maximum number of account with deposit is opened during this period is by private sector bank. Still there is wide range of scope in improvement of this scheme.

3. Objectives of the Study:

- To Study impact of caste on ownership of bank accounts by controlling effect of education.
- To Study impact of Religion on ownership of bank accounts by controlling effect of education.

4. **Hypotheses:**

The two null hypothesis formulated for the study are:

H_{0a}: There is no significant difference in owning number of bank accounts based on religion after controlling effect of education.

H_{0b}: There is no significant difference in owning number of bank accounts based on caste after controlling effect of education.

5. Methodology:

The current study has been conducted to find out the impact of caste and religion, taken as two independent Variables, on the number of accounts opened with the bank, keeping the education as controlled variable. ANCOVA (Analysis of Covariance) is used for investigating the relationship using Statistical Package for Social Science. ANCOVA is used to detect the difference in means of 3 or more independent groups whilst controlling for the covariates. A covariate needs to be controlled because it could influence the dependent variable. Data is collected randomly from the 200 households of villages namely, Chaparia and Jagatpur of Madhubani District of Bihar.

6. Data Analysis:

A one way between subjects ANCOVA was calculated to examine the effect of religion on number of accounts co-varying the effect of Education. There is a significant effect of religion on number of accounts after controlling the education ($F (1,198) = 17.811$, $p = 0.000$). The result indicates that null hypothesis H_1 is rejected. The result also reveals that there is significant relationship between the covariate (Education) and the dependent variable (number of accounts). The partial Eta Squared value specifies the effect size and should be compared with Cohen's guidelines (0.2 – small effect, 0.5 – moderate effect, 0.8 – large effect) (Cohen's, 1992). It can be seen in the table that the effect size is small as the Partial eta squared value is 0.083.

Table 1: ANCOVA results (Hypothesis 1)

Tests of Between-Subjects Effects

Dependent Variable: No. ofAccounts

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	42.621[a]	2	21.310	51.710	.000	.343
Intercept	71.136	1	71.136	172.615	.000	.466
Education	33.962	1	33.962	82.409	.000	.294
Religion	7.340	1	7.340	17.811	.000	.083
Error	81.598	198	.412			
Total	1057.000	201				
Corrected Total	124.219	200				

a. R Squared = .343 (Adjusted R Squared = .336)

Table 2: ANCOVA results (Hypothesis 2)

Tests of Between-Subjects Effects

Dependent Variable: No. ofAccounts

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	42.787[a]	3	14.262	34.504	.000	.344
Intercept	70.954	1	70.954	171.652	.000	.466
Education	24.521	1	24.521	59.322	.000	.231
Caste	7.506	2	3.753	9.080	.000	.084
Error	81.432	197	.413			
Total	1057.000	201				
Corrected Total	124.219	200				

a. R Squared = .344 (Adjusted R Squared = .334)

Similarly, the relationship of caste on number of accounts co-varying education is examined through one way ANCOVA between the subjects and the result is demonstrated in Table 2. Null Hypothesis$_2$ cannot be accepted as the results reveal that the significant effect of caste on number of accounts after controlling the education (F (1,198) = 9.080, p = 0.000). The results also indicate that the effect of controlled variable education on number of accounts is significant (F

(1,197) = 59.322, p = 0.000). The partial eta square value of 0.084 demonstrates small variation in the number of accounts (Dependent Variable) due to caste (Independent Variable).

7. Implication:

As the result shows that there is significant impact of caste and religion on number of accounts after controlling effect of education the government should work on social protection program to elevate the minority and lower caste groups to bring them in main streamline. The financial awareness program should be organized to influence the weaker section of the society. Financial Inclusion is only possible with the upliftment of vulnerable section of the society.

8. Conclusion:

"Those who have less in life should have more in law" (Ramon Magsaysay). The presents study examined the impact of caste and religion on owning number of accounts by controlling effect of education. The results reveal that there is significant impact of caste and religion on number of bank accounts possessed by a household. Therefore, government should work for inclusive policy to cover entire strata of the society. Social inclusion is prerequisite to achieve complete financial inclusion.

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