Empirical Study Of Urban Financial Inclusion, With Reference To Urban Poor in Mumbai

Ms. Sreelatha Guntupalli
Assistant Professor, Sinhgad Institute of Management, Chandivali, Mumbai
Email:sreelatha1106@gmail.com

Abstract-
"Financial inclusion", is an ongoing-dynamic procedure and is defined as a process in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers. Urban financial inclusion needs a high- priority attention because of the rapid urbanization and unique requirements of urban poor and increase of low- income population who are mainly migrants and settlers. The major section of such urban dwellers include rickshaw pullers, construction workers, maids, factory workers on contract basis, small vendors, unemployed individuals, migrants, hawkers, security guards,etc. Their needs have to be studied and understood since they have uncertain and uneven earnings. The biggest hurdle with urban dwellers is the KYC (Know Your Client) issues and the assurance that the borrower does not disappear. The research paper attempts to analyse and measure the access to bank account, usage of bank services, and the barriers faced by the low and poorer sections of the society. Mumbai, which is also called Business capital of India, Financial capital of India, Communications hub of the country, and is considered similar to New York city of USA, has more and more of migrants to earn a living. Mumbai has both sections of population: extremely poor and premium rich and traditional as well as modern.
A deeper insight into the definition of financial inclusion clearly states that it is a process that ensures access, availability and usage of the formal financial system. The process requires government involvement and also proactive role of various other formal financial institutions. The research attempts to study the status quo of the financial inclusion process in urban areas.

Keywords: *Dharavi, Financial inclusion, KYC, Financial literacy, PMJDY, Urban poor.*

1. INTRODUCTION

Financial inclusion may be broadly understood as ' universal access to a broad range of financial services at an affordable cost by the poor and vulnerable sections of the economy, that include people with marginal incomes, limited savings, intermittent incomes, and unemployed. The crux of financial inclusion process is, undertaking of efforts by financial institutions and banks, to ensure provision of appropriate financial services to every individual and enable them to understand and access the wide range of financial services. These financial services include basic bank account for savings, remittances and receive payments, small or micro loans, insurance and overdrafts for contingencies. There are various advantages if people are included in a formal financial system. They are: People can meet the day- to- day transactions, which includes remittances and receipts; ensure secured savings, which eventually help to build wealth; Plan for unexpected events such as medical emergencies, natural disasters, theft, etc; improve standard of living by enabling the individual to plan their cost of living approximately; and it helps in the accomplishment of overall financial and social security of the individual. The scope of financial inclusion can be simply understood from the following figure:

Figure 1. Scope of Finacial Inclusion

As the rural agriculture sector is shrinking day by day, there is a speeding migration of people to urban sector for viable employment. Providing lucrative and well paid employment to the growing urban population is a major challenge before the government. A large number of urban residents, both migrants and non-migrants, rely on low-paid, insecure jobs, and in some cities majority of the population live in settlements that lack adequate basic infrastructure and access to services, and where housing and shelter are greatly inadequate. Urban poor generally come from various parts of the country and social groups, possibly impacting the quality of social networks formed within self-help groups as well as restricting the ability of banks/financial institutions/ MFIs to gather information on them. Banks/MFIs are hesitant in providing financial services to the urban poor due to lack of identity proof, lack of cohesion among the inhabitants of urban slums, irregular incomes and migration among the workers to and from rural areas. This is in contrast to the rural poor who have a permanent address proof as needed for requisite documentation. The biggest hurdle with urban dwellers is the KYC (Know Your Client) issues and the assurance that the borrower does not disappear. Ultimately, there is no substitute for credit information bureau/registry system, which is comprehensive, ubiquitous and effective.

Government role in the financial inclusion process: The chart below explains the various schemes and policies initiated by the government and other formal financial institutions to further the financial inclusion process.

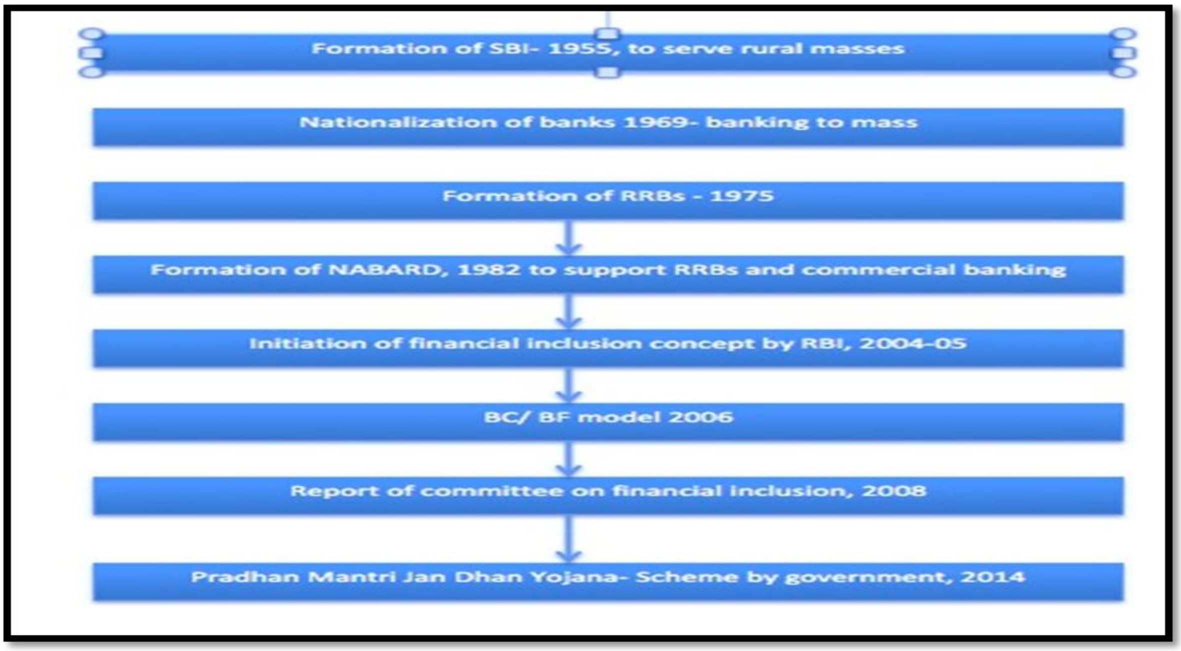

Figure 2.

2. LITERATURE REVIEW

Financial inclusion is ‘the extent of access by all sections of society to formal financial services such as credit deposit, insurance and pension services’ (**CRISIL,** 2013). Research proves that the degree of financial inclusion is based on three dimensions: Usage, Access, and Barriers and the methodology are statistically sound for index construction and robust to high dimensional data. The results of the index suggest that supply of formal financial services is more important than number of users. (**Noelia Camara** et al, 2014). Urban poor mostly are migrants who eventually settle down and thereby urban cities start becoming overpopulated. But, there is positive side of migration, which suggests for an improvement in institutional preparedness and to build capacity for facilitating and promoting migration by creating co-ordination committees, labor cells, promote safe settlements and ensure access to formal banking facilities(United Educational, Scientific and Cultural organization- **UNESCO (**2012). According to cross-country analysis conducted by **Mandira Sarma(**2008)**,** the level of human development and that of financial inclusion are strongly positively correlated. The income inequality, adult literacy and urbanization are most important factors in explaining the level of financial inclusion in a country. Research studies by **Dr. Mazher Hussain** (2014**)** in Argentina, South Africa, Saudi Arabia, USA, Italy and France show that it is corporate and industry that are biggest risk and defaulters and not the poor or the middle class borrowers. A timeframe is required to fix bank-wise targets and ensure total financial inclusion of the urban poor. A study by **Laxmi Kumar & Jyothi Prasad**(2012), in the state of Tamilnadu, shows that the urban and rural poor are not homogenous in nature and their livelihood activities, access to basic services like health, education, financial services are different. But, the common similarity between urban and rural household is to invest is monthly chit fund (for known expenses) or gold (for unknown expenses). According to a survey done by Indian Bank, **M.S.Sundararajan**(2007),it was found that the Dharavi area in Mumbai has more number of settlers&migrants, and therefore lack of proof residence prevented them from opening bank account. Indian bank launched the urban financial inclusion model, which brought significant improvement in the standard of living in the urban poor. According to **Sequeira A H, et al (2015),** financial inclusion to vulnerable sections will be more beneficial if it undertakes the aspects of economic inclusion and welfare packages as its parameters.

Objectives of the study:

1. To measure the progress of financial inclusion in urban areas.
2. To study the role of formal and informal financial services used by these urban segments.
3. To assess the state of financial inclusion in urban areas.

3. RESEARCH METHODOLOGY

To achieve the research objectives of identifying financial inclusion, primary and secondary data were collected and analyzed. The sample is collected from Dharavi area, in Mumbai. Dharavi is the second largest slum of Asia after Orangi, and is bustling with informal economic activity. A study by the SPARC (Society for the Promotion of Area Resource Centres) estimates that Dharavi has 4,902 production facilities, with 1,036 in textiles, 932 in pottery, 567 in the leather, 722 in recycling and scrap metal, 498 in embroidery and 152 in food. Furthermore, there are 111 restaurants and several thousand boutiques in Dharavi. is divided into five sectors. The demographics of the area are almost similar with low incomes and petty employment availability. Therefore, random sampling of 100 respondents from each sector was taken and data was collected through questionnaire. The total sample size of 400 was distributed equally among four sectors. The data has been analyzed with the help of statistical package for social sciences (SPSS)

4. DATA ANALYSIS

a. Demographic profile of respondents

Table 1.. Source: the primary data collected

Characteristics		No of respondents	Total
AGE	20-30	25	400
	31-40	159	
	41-50	157	
	51-60	50	
	60 & above	9	
EMPLOYMENT	Unemployed	4	400
	Contractual labor	86	
	Full time	144	
	Business/self employed	166	

MONTHLY INCOME (IN RUPEES	0-5000	4	400
	5001-10000	80	
	10001-15000	196	
	15001-20000	92	
	20000 & Above	28	
EDUCATION	NIL	38	400
	Below 10th standard	185	
	10th standard & above	108	
	Up to 12th standard	51	
	Others	18	
STATUS	Natives	300	400
	Migrants	95	
	Not answered	5	
NUMBER OF MEMBERS IN THE FAMILY	1	2	400
	2	4	
	3	24	
	4	138	
	5	108	
	6	63	
	7	22	
	8 and above	39	

b. Results

Correlation between parameters of each dimension:

Correlation refers to the relationship between two (random) numerical variables. The coefficient measures the strength and direction of the linear relationship between two variables. The range of correlation coefficient is from -1 to +1. The Pearson's correlation coefficient is calculated for the sample, which is represented by r.

If r>0, then the two variables are said to be directly correlated, and if r<0, the two variables are inversely or negatively correlated.

If r>0.5, then the two variables are said to be positively and highly correlated, and

if r< -0.5, then the two variables are negatively and highly correlated.

The variables that are considered for computing the correlation are: Access to Bank account, Education levels of respondent, Savings capacity, Employment type, Income of the respondent, Borrowings by respondent from bank, awareness of PMJDY, BC/BF model, of respondents, financial education or literacy.

Following is the correlation table calculated using the SPSS.

Table 2. Correlation between variables

Correlations	Income	Employment	Saving-deposit channels	Bank account	Borrowing from bank	Insurance	Awareness of bank account	Awareness of financial literacy	Awareness of PMJDY	Awareness of BCBF	Education
Income	1										
Employment	0.36	1.00									
Saving-deposit channels	0.32	0.03	1.00								
Bank account	0.30	0.28	0.23	1.00							
Borrowing from bank	0.11	0.12	0.04	0.11	1.00						
Insurance	0.27	-0.04	0.30	0.16	0.17	1.00					
Awareness of bank account	0.11	0.00	0.17	0.10	-0.06	0.02	1.00				
Awareness of financial literacy	0.17	-0.21	0.19	-0.13	0.01	0.16	0.46	1.00			
Awareness of PMJDY	0.20	0.06	0.19	0.20	0.02	0.31	0.04	-0.06	1.00		
Awareness of BCBF	0.13	0.01	0.04	-0.04	0.18	0.15	0.14	0.42	-0.21	1.00	
Education	0.20	-0.02	0.15	0.19	0.11	0.32	0.07	0.06	0.38	-0.03	1.00

The results of the correlation table below highlight the following:

There is a **positive correlation**, **0.36,** between income and employment which implies better employment levels increase the earning capacity of individuals, thereby increasing the quality of income. The respondents have considerable employment, which is seen, in the income levels.

There is a **positive correlation** between, **0.32**, between savings deposit channels and income. This implies respondents have savings and are depositing/ investing them in different sources.

There is **Positive correlation** between bank account and income, **0.30**, which indicates that income capacity enables the individual to access the bank and motivates the individuals to inculcate the banking habits.

Insurance also is **positively correlated** with income levels at **0.27** and savings also has a positive correlation with insurance which is **0.30**, implies insurance habits are more with those respondents who have considerable levels of income and savings, and enable them to invest in insurance.

Awareness with the help of financial literacy programs is **positively correlated** with respondents' awareness of opening a bank account, **0.46**. This implies that more financial literacy programs have to be undertaken by banks and formal financial institutions to enlighten the individuals of the advantages of having a bank account.

The correlation between education and the awareness of PMJDY, **0.38**, indicates that the awareness is reaching the educated individuals. The primary objective of PMJDY is to enable the unbanked and under privileged to access the bank facilities and include them into the stream of formal financial system. This objective of PMJDY is not yet accomplished, since all respondents are not educated.

The awareness of PMJDY is having **a negative correlation** on bank account, **0.20**, which indicates that the respondents do not have any understanding of the government initiated scheme and are not aware of it.

This implies that the urban poor are aware of the bank services and banking systems. There is a need to identify and focus on that section of people who face multiple barriers. Distrust in formal financial system is another important human barrier, which has to be treated, to widen the formal financial inclusion domain. Income and employment levels are not the only indicators of not having a bank account, but other factors such as other investment avenues, for the respondents, are seen to be more profitable than having an account.

5. CONCLUSION AND RECOMMENDATION

The population living or migrating to urban areas, hope for better living conditions and struggle for improved standard of living. But the cost of living in urban areas absorbs the individual dual objectives, and pulls down their financial abilities. Eventually, this leads to resorting to informal sources of finance. The financial infrastructure in urban areas is more efficient in terms of accessibility and usage. There are better employment opportunities, giving higher scope for earnings, when compared to rural areas. Therefore, urban financial inclusion needs more concentration on spreading of awareness of the formal financial avenues for payments and remittances. Financial literacy, basic education and availability of formal financial products and services, need to be threaded properly for a comprehensive urban financial inclusion achievement. The unique feature of the urban financial inclusion program is the combination of human, infrastructure and technology aspect. The technology oriented banking and financial services are adopting more user-friendly techniques and secured networks. One of the critical barriers/factors affecting the banking habits of the urban slum/ below poverty population is lack of consistent or steady income. Govt. should continue to focus on providing employment and steady income opportunities through various schemes like NREGA, etc. with specific focus on urban below poverty population. Some of the industries (like leather industry in Dharavi area) have been showing a sign of stress, which provide significant employment opportunities in such areas. Govt. should provide some form of protection or subsidies for such industries so that the industries are not shut down due to cheaper import of goods or competition from big industries with latest technologies. This should be forming part of overall improvement of such physical aggregation of urban population.

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Author

Prof Sreelatha Guntupalli, currently working as Assistant Professor in Singhad Institute of Business Management, Mumbai. She is a research scholar of Osmania University. She has 15 years of teaching experience and her areas of interest are Finance, Banking and Corporate law. She has also done LLB with specializing in Consumer protection and pursuing ACS (Professional) from ICSI.