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Financial Exclusion- A Paradox in Developing Countries

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Abstract: *The paper, tried to find out the basic reasons behind financial exclusion in a developing country like India. It also tried to analyse the reasons behind very slow improvement in this aspect. Going through the response of 100 respondents from different location of West Bengal, India, it showed 'work status', 'head of the family's saving habit', 'education' and 'location' have significant relationship with financial exclusion. Further, the paper tried to analyse the fact that all these variables act as reasons as well as effects of financial exclusion and therefore, it becomes really difficult to reduce the amount of financial exclusion from a developing countries like India.*
Keywords: *financial inclusion, financial exclusion, work status, financial dependence, vicious circle.*

I. Introduction

Financial exclusion is the lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship. Financial exclusion is observable at individual, family, or household level, but can also be heavily concentrated in suburbs or regions, and sometimes among ethnic minorities in a suburb or region. Financial exclusion can also apply to individual small businesses, NFPs and other community enterprise organisations.

The main product-based exclusion types were identified as:
- Transaction accounts;
- Savings accounts (with interest);
- Financial advice (financial counseling and investment advice);
- Appropriate credit (affordable fixed term loans, major credit cards);
- Insurance;
- Home equity/mortgage loans;
- Superannuation;
- Community enterprise financial support.

Out of these, appropriate credit is the most important one, which comprises of three main factors:
1. Major credit card exclusion
2. Credit card inclusion and abuse
3. Affordable fixed term loans
The main drivers of financial exclusion were thought to be:
1.   Low income (and consequent problems of nil or low savings, and lack of assets,leading to no security for acquiring loans or credit);
2. Unemployment, discontinuous or casual work history;
3.   Policies and marketing of mainstream financial product and service providers;
4.   Financial illiteracy and poor financial habits.
Of these, by far the most important driver was thought to be low income.
5. There were a number of less important drivers, including psychological and disability related issues, a feeling of being excluded, membership of indigenous and other ethnic communities, geographic remoteness, lack of time (eg the working poor), lack of PC/internet access, and the availability of alternative/fringe financial products and suppliers.

The main impacts of financial exclusion were thought to be:
1.   Economic, at various levels– individual, community, among mainstream financial providers and at a national level.
2. Education, health and social impacts on household.
3. Safety and security compromised;

4.   Use of inappropriate mainstream products, including knockon effects (eg exclusion from a personal loan leading to abuse of credit cards, leading to a constrained credit history, resulting in exclusion from a home mortgage);
5.   Exploitation/use of fringe products, amounting to inefficient use of money;
6. A prolonged state of poverty and financial hardship often results, whether or not financial exclusion was a cause of poverty in the first instance.

Position of India in this aspect-

From financial data of 2014, we can compare among the countries according to 'formal loan' and 'formal savings' and 'active bank account' and have a look on India's position.

Country Loan (formal)- Australia 17.0 Bangladesh 23.3 Brazil 6.3 Canada 20.3 China 7.3 France 18.6 Germany 12.5 **India 7.7** Indonesia 8.5 Italy 4.6 Japan 6.1 Kenya 9.7 Malaysia 11.2 Netherlands 12.6 New Zealand 26.6 Pakistan 1.6 Poland 9.6 Russia 7.7 South Africa 8.9 Sweden 23.4 Uganda 8.9 United Kingdom 11.8 USA 20.1.

Country Savings (formal)- Australia 61.9 Bangladesh 16.6 Brazil 10.3 Canada 53.2 China 32.1 France 49.5 Germany 55.9 **India 11.6** Indonesia 15.3 Italy 15.5 Japan 51.3 Kenya 23.3 Malaysia 35.4 Netherlands 57.8 New Zealand 60.4 Pakistan 1.4 Poland 18.0 Russia 10.9 South Africa 22.1 Sweden 63.6 Uganda 16.3 United Kingdom 43.8 USA 50.4.

Country Bank account (active)- Australia 98.8 Bangladesh 36.6 Brazil 53.4 Canada 94.3 China 53.4 France 94.9 Germany 96.6 **India 32.8** Indonesia 19.5 Italy 69.2 Japan 92.1 Kenya 40.5 Malaysia 62.7 Netherlands 98.1 New Zealand 98.7 Pakistan 10.2 Poland 67.9 Russia 45.9 South Africa 52.5 Sweden 98.9 Uganda 20.1 United Kingdom 96.9 USA 86.9.

These figures are enough to discuss about the reasons behind 'financial exclusion'.

II. Literature Review

Financial inclusion or exclusion is a topic that has always interested researchers and academicians, with the emphasis especially on developing countries. Dangi and Kumar (2013) examined the impact of RBI and GOI initiatives on financial inclusion and concluded that financial inclusion has a positive impact and hence provisions should be made in the banks' business models to ensure financial inclusion. They also emphasized the importance of training frontline staff and managers on the human aspects of banking.

Garg and Agarwal (2014) have analyzed the different approaches adopted by different banks on financial inclusion. They have also analyzed past years achievements and progress.Singh (2014) has tried to explore the benefits of utilizing resources like mobile phones, India Post, IT advances in the banking sector, fair price shops, etc since the traditional methods initiated by RBI and GOI have not yielded satisfactory results.

Rajput and Oberoi have analyzed RBI, GOI and banks' initiatives on financial inclusion and have also analyzed the variance in performance from state to state. They observed that southern states have tended to do better on financial inclusion.Kempson and Whyley (1999), Kempson et al (2000), Sinclair (2001), Anderloni (2003), Gloukoviezoff (2004), and Anderloni and Carluccio (2006) have also given their views on financial inclusion and exclusion.

III. Objectives Of The Study-

1) What are the basic reasons behind financial exclusion?
2) What are the reasons behind very slow improvement in this aspect in developing countries like India?

IV. Sampling-

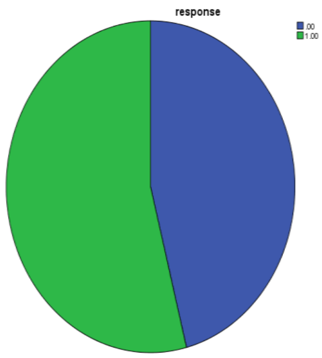
100 respondents are selected from areas around Kolkata. For 'rural' and 'semi-urban' areas, North and South 24 parganas are selected. For 'urban' area data were collected from Kolkata itself. As sampling process, 'convenience' sampling is done. Purposively, a heterogeneous group is formed so that all kind of people could be there with different socio-economic features.

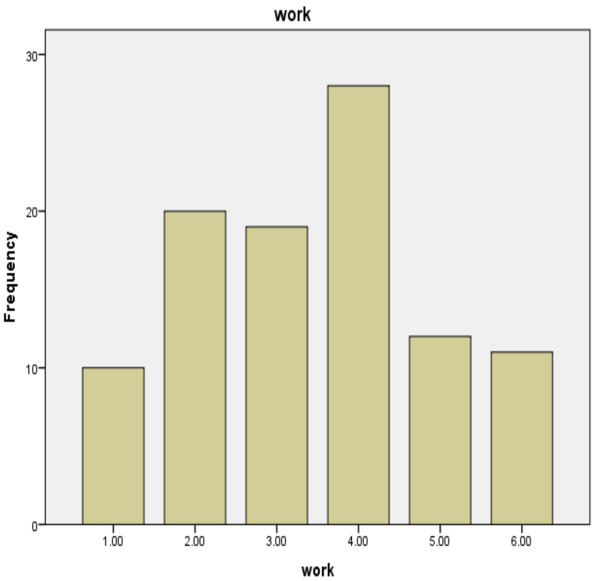
In the questionnaire, the following independent factors are taken against the primary question that, whether the respondents have 'bank account etc' or 'not'. They ticked 1 for 'yes' and 0 for 'no'.

1. Respondent work status:
Permanent/ full time Full time, not permanent Part time Seasonal
Looking after home
Student
2. Whether head of the family is having 'bank account etc'
No
Yes
3. Education:
Up to XII
graduation
Post graduation
4. Gender:
Male
Female
5. Age:
18-25
26-44
45-64
65 +
6. Geographical area:
Rural area or village
Small or middle sized town
Large town
7. Income:
Lowest
low
high
Highest

V. Data Description

Statistics									
		response	work	savinghab it	edu	gender	age	location	income
N	Valid	100	100	97	100	100	100	100	100
	Missin g	0	0	3	0	0	0	0	0
Mean		.3900	3.4500	1.2887	2.5700	1.5200	2.3600	2.0500	2.5800
Median		.0000	4.0000	1.0000	3.0000	2.0000	2.0000	2.0000	3.0000
Mode		.00	4.00	1.00	3.00	2.00	2.00	2.00	3.00
Std. Deviation		.49021	1.47282	0.49992	1.00760	.50212	1.03981	.78335	1.05582
Range		1.00	5.00	1.00	3.00	1.00	3.00	2.00	3.00

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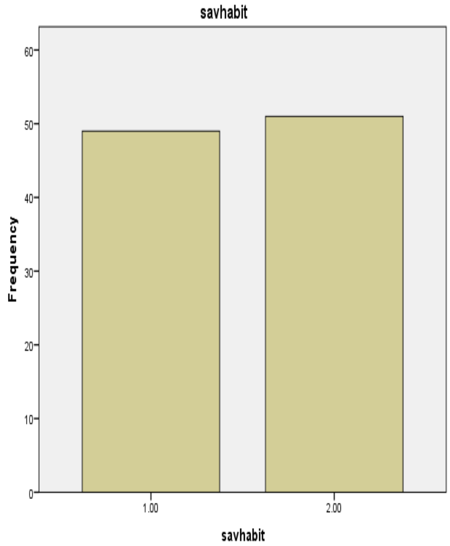
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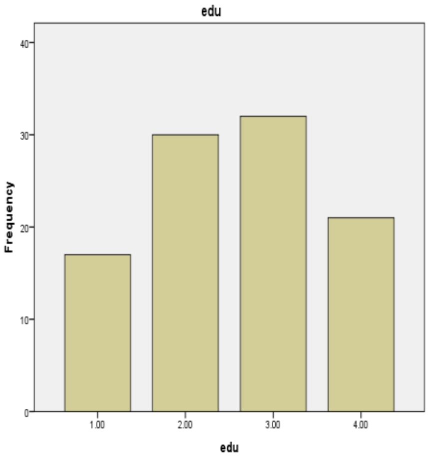
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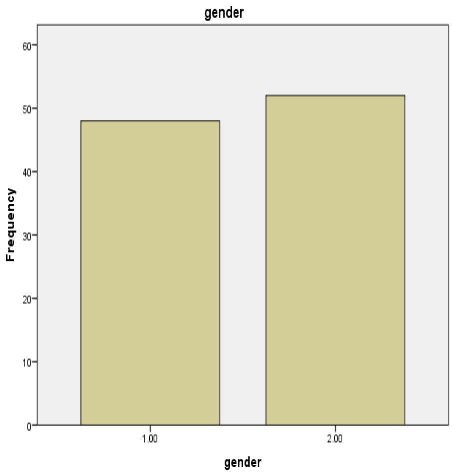
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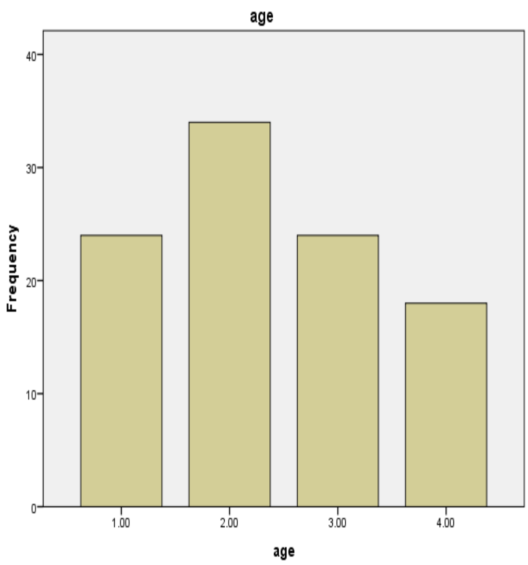
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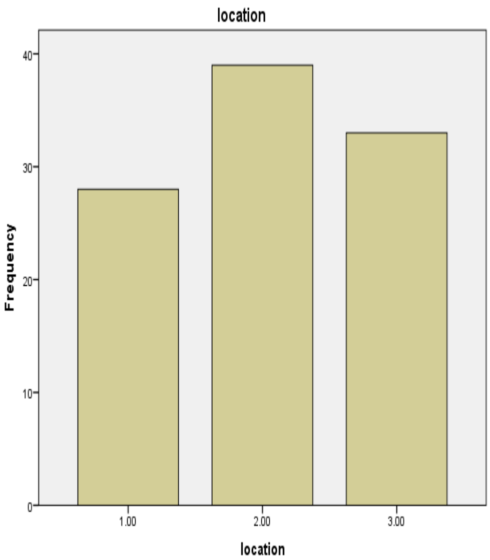
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location

VI. Methodology

Since the dependent variable is 'binary', binary logistic regression has been done for analysis.Through our research paper, we try to find out the reasons behind financial exclusion. After doing the binary logistic regression with 100 respondents, we jot down these 4 factors behind financial exclusion.Family saving habits Unstable income Rural location Lack of education

VII. Result

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	-.483	.209	5.349	1	.021	.617

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	125.592[a]	.034	.046
a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.			

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
	workstatus	-.029	.146	.039	1	.044	.972
	savinghabit	.032	.057	.313	1	.076	.969
	edu	.046	.223	.042	1	.138	.955
	gender	-.024	.440	.003	1	.957	.754
	age	-.241	.216	1.249	1	.864	.785
	location	.200	.287	.487	1	.085	.818
	income	.109	.208	.275	1	.600	1.115
	Constant	.510	1.367	.139	1	.709	1.665
a. Variable(s) entered on step 1: work, savinghabit of head of the family, edu, gender, age, location, income.							

Above result shows, 'work status', 'head of the family's saving habit', 'education' and 'location' are significant; Whereas, 'gender', 'age' and 'income' are not significant.

VIII. Analysis

Our first observation is financial exclusion does not depend on how much a person earn, it basically depends on the nature of his/her income. A stable income gives a person the opportunity to save a certain amount of money. 'Saving habit of the head of the family' is a significant factor with a positive coefficient. As in many cases people inherit the saving habit, financial exclusion is less when the head of the family has some kind of financial activities. Higher educational qualification is not surprisingly a significant factor behind less financial exclusion. Similarly, as we move from rural to urban area, financial exclusion falls.

'Age' as well as 'income' is not showing any significant relationship with financial exclusion. Actually, financial inclusion depends on how much confidence a person have on financial market, how much knowledge he or she has regarding financial instruments, what kind of saving habit he or she is having. It does not depend on how much they earn or how old they are. Similarly, financial exclusion is not a function of 'gender'; rather, it could be a function of financial independence.

Now, after getting the names of the statistically significant variable behind financial exclusion; second question arises. That is, though the reasons are very much known to us, but still it seems to be too difficult to reduce the amount of financial exclusion!

Answer lies in the fact that all the reasons are, at the same time, generating from high financial exclusion rate.

- **Instability in income – Cause or Effect of Financial Exclusion?**

While unstable income is seen as strongly associated with exclusion, evidence is available for both causal *and* consequential effect between this and most forms of financial exclusion. It is likely that the particular pathway followed by an individual to financial exclusion influences the direction of cause and effect between financial exclusion and financial hardship for that individual or household. Due to instability in income, people cannot afford to have bank account or other financial instruments. But on the other hand, due to lack of proper financial planning they could not have stable income in future too. Thus the same cause-effect relationship rotates again and again.

- **Head of the family's saving habit - Cause or Effect of Financial Exclusion?**

Normally people inherit saving habits from their elders. If saving habits of the head of the family is a reason behind the financial exclusion, it also becomes an effect of financial exclusion. Because of lack of financial inclusion of one family, their ancestors couldn't get that urge to put their money in banks, and it goes on and on.

- **Education - Cause or Effect of Financial Exclusion?**

Our result shows with higher educational level financial exclusion drops. It is quite obvious that with low education people cannot get the confidence in the financial system and therefore there is financial exclusion. Here, the important point is, as people do not enter in the financial system, they cannot get knowledge regarding different financial instruments. Thus, with this lack of financial literacy they would be unable to enter in the financial market.

- **Location - Cause or Effect of Financial Exclusion?**

In our research, we got respondents from urban, semi-urban and rural areas. Not surprisingly, financial exclusion increases from urban to semi-urban to rural areas. It is a known fact that rural people has very less financial inclusion. Now, due to this fact it is not very profitable for the banks or other financial institutions to open more and more branches in those areas. Therefore, it might create a supply-side bottleneck, which in turn, could minimize the rate of financial inclusion in rural areas.

From above discussion, reasons behind the very slow improvement in the rate of financial inclusion are quite clear. Each of the four reasons is coming out from financial exclusion itself. So, it is like some vicious circles which are very difficult to break from within the system.

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