

**AN EMPIRICAL STUDY OF FINANCIAL
INCLUSION AND ITS STRATEGIC APPROACH IN THE
SLUMS OF MUMBAI**

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Abstract:

Financial services play a vital role in the economic growth of a country. The core objective of Indian economic policy is “economic growth with social justice”. For the welfare of society, two aspects of financial services are highly important: First, financial options viz. banks, insurance companies and stock markets and second easy accessibility to such financial options for all the citizens. Financial Inclusion is a recent addition to the finance literature. Today, large segments of the world population are excluded from basic financial services even as financial services are developing and globalizing rapidly. The degree of exclusion is much greater in India, especially in the slum area population are excluded from the formal financial services. The empirical paper tries to explore the financial inclusion in the urban poor who live in the selected slums in the Municipal Corporation of Greater Mumbai area. It is an attempt to understand the awareness of banking services, role of technology in banking services and the application of various strategy models in the selected areas. The study is mainly based on primary data.

Key words: Financial Inclusion, Slums, Banking services

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Introduction:

The term financial inclusion has been widely used across the world especially in the third world in the recent years. It refers to the delivery of banking services at an affordable cost to the vast sections of the disadvantaged and marginally low income groups (leeladhar 2006:73). The committee on Financial Inclusion under the chairmanship of C. Rangarajan gives a still wider definition, which defines financial inclusion as the process of access to financial services, and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (Rangarajan 2008).

He also stressed in his book titled “A Hundred Small Steps” gave importance to inclusion, growth and stability. There is an urgent need to focus on other segments as well, for the poor in urban areas. Despite all measures taken, only 35.5% of households in the country were availing of banking services. While this proportion was 49.5% in urban areas, it was only 30.15 in rural areas.

The goals of inclusive finance are defined by the United Nations as follows:

- Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance.
- Sound and safe institutions governed by clear regulation and industry performance standards.
- Financial and institutional sustainability, to ensure continuity and certainty of investment.
- Competition to ensure choice and affordability for clients.

Statement of the Study

54.08% population of Mumbai and its suburbs reside in slum areas; hence the slums socio-economic problems became major issues to the Government of Maharashtra. Urban poor growth rate in Maharashtra is greater than the general urban growth rate. The banking services offered through various banking systems are still unreachable to all the financially illiterate people particularly towards urban poor. The study tries to find out the financial inclusion position in the selected area.

Objectives:

1. To understand the awareness about the banking services in the study area.
2. To know the performance of financial inclusion strategy in the selected area.
3. To examine the role of technology in the study area.
4. To know the overall impact of financial inclusion in the selected area.

Methodology:

The study is based on primary and secondary data. Primary data are collected directly from the respondents with the use of structured questionnaire. The secondary data are collected from published books, unpublished books, Journals, News papers and various reports. The total number of household in the selected area was 17,852.

Ward wise (Selected) Slum Population in Mumbai:

Ward No.	Area covered	Slum Population	Number of Slum Household
F (45)	Indira Nagar, Nehru Nagar, Dr.Babasaheb Ambedkar Nagar, Rawli camp, Dhobi Ghat, Almeda compound, Shastri nagar, Kamaraj nagar	26,225	7,110
M (185)	Bharat nagar,no.1, New shastri nagar, Prakash nagar, Vishnu nagar,	22,075	4,415
H (80)	Bharath nagar, masjid pathar nagar, tabeka, Ambedkar nagar, Mithi river nallah	30,000	3,787
M (189)	Kamala Raman nagar, Bhim nagar, Transit camp, Sanjay Gandhi nagar, Dr. Zaheer Hussain nagar, Sathe nagar, Sandesh nagar.	25,200	2,540

Source: Municipal Corporation of Greater Mumbai, Slum Adoption Programme, March 2006.

So as to cover an almost equal number of families in each regions of Municipal Corporation of Greater Mumbai wards namely, F(No.45), M (No.185), H (No.80) & M (No.189) of various slums were randomly selected for this study. From the above slum household population, only 120 samples were selected on random basis. After finding out the respondents' attitude factors like age, income, education and occupation etc., the percentile tables were prepared and analysis and interpretation were made on the basis of percentages.

Hypotheses of the Study:

1. Mumbai Slum people are not fully aware about various services offered by the bankers.
2. Technology in banking helped to achieve financial inclusion in the study area.

Limitations of the Study:

The area of the study is restricted to only four slums in Mumbai city. The population of the study is restricted to 1, 03,500 residents, who lives in 17,852 slum houses in the selected four research areas in Mumbai city. Though there are many services offered by the banker to its customers, the study concentrates only on the services offered to the urban poor in the selected area. Since the urban poor area in Mumbai is scattered, the researcher has collected the sample from the urban poor respondents on random basis.

Literature Review:

UN Millennium Summit in September 2000 reported that by 2020, a significant improvement in the lives of at least 100 million slum dwellers would be achieved, as proposed in the cities without slum (CWS) initiative.

Prof. Muhammad Yunus (2010) the founder of "Grameen Bank" and Managing Director, Grameen Bank (GB) has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity.

S.G. Patil (1995) in his studies under the titled "Urban co-operative banks priority sector lending: an evaluation", emphasized that urban co-operative banks are lending to the weaker section of the society at 60% level even after having experienced problems and challenges on it.

Financial Inclusion Strategy Models:

From January 2006 onwards, banks were permitted to utilize the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries in providing financial and banking services. Financial inclusion has shifted from being a social objective to a viable business opportunity across the world. Enterprises have identified three business models: bank-driven strategies, nonbank-driven strategies, or hybrid models. Different geographies have adopted the model that best suit them based on various macroeconomic factors.

The 11th Five Year Plan has adopted "Faster & More Inclusive Growth" as the key development paradigm. "Inclusive growth" calls for "inclusive cities" that are inclusive of the poor, weaker sections, slum dwellers, street vendors, construction workers and those engaged in informal sector activities. Some models have been illustrated below.

Bank – SHG Linkage Model: This is one of the most popular and successful model being incorporated and followed by all public and private sector banks now-a-days. The banks may perform the role of formation of SHGs in the case of the direct linkage model. The banks are also responsible for granting credit to the SHG in a quantum proportional to their savings.

Bank – MFI linkage Model: MFIs are to be seen as the last mile—the connecting link to the rest of the financial sector. They've developed technology that banks do not have. If banks get into the business of organizing groups and all, they won't be able to do it effectively.

ICICI Partnership Model: A direct banking model was not an appropriate one for the very poor in India and so a large bank like ICICI bank was able to raise equity capital (close to \$2 billion), design financial products (mezzanine equity for example), raise resources, financial engineering (for example securitization) and deploy technology. It has developed comprehensive plan for the provision of financial services to all the poor who live in both rural and urban area.

MF-NBFC Model: MF-NBFC is new category of Non banking Finance Company in providing microfinance services to the rural, semi-urban and urban poor. MF-NBFC should be defined as a company that provides thrift, credit, micro-insurance, remittances and other financial services up to a specified amount to the poor in rural, urban and semi-urban areas. MF-NBFCs are expected to be larger, with a stronger capital base and more highly regulated than NGOs.

Bank - Post office Model: Apart from savings deposit, money transfer, parcel sending, etc. Post offices are also engaged in new services like granting retail credits or selling insurance products either directly or on behalf of commercial banks. Further financial services can also be offered with public-private partnerships with distribution taken care of post offices.

The Committee on Financial Inclusion, NABARD has suggested to launch a National Rural Financial Inclusion Plan (NRFIP) in mission mode with a clear target to provide access to comprehensive financial services, including credit, to at least 50 per cent (55.77 million) of the financially excluded rural cultivator/non-cultivator households, by 2012 through rural/semi-urban

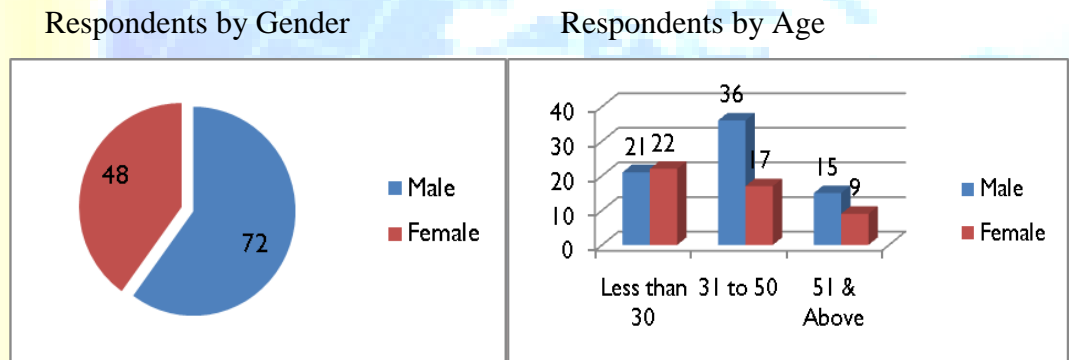
branches of Commercial Banks and Regional Rural Banks. The remaining households have to be covered by 2015.

Financial inclusion has become a necessary movement for India for saving its less privileged citizens from the clutches of financial deprivation and exploitation and gives a boost to their livelihood opportunities and empowers them to take charge of their lives. Equal facilities and equal opportunities to all will lead to a long lived success for our country and its citizens.

Data Analysis:

Profile of the Respondents:

The profile of the respondents in the study area contains the details of their age, education, income and occupation. The following tables show the frequency of the respondents in percentages with respect to their gender and age.



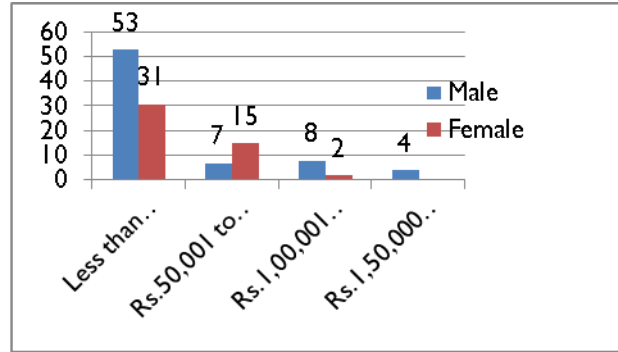
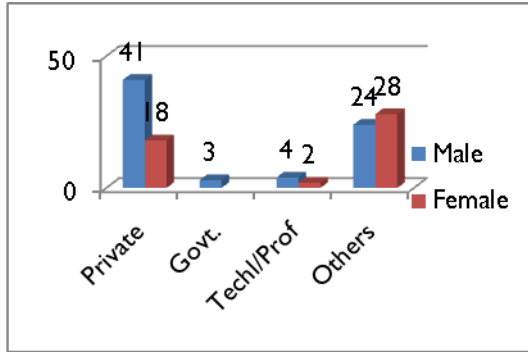
Source: Field survey

From the above figure, out of 120 respondents, 40% (48) female members and 60% (72) male members responded. Male members contribution was greater than their counterpart. The researcher tried to get more information from the women. But they were hesitated to give information regarding banking services.

Respondents having less than 30 age group consist of 35.83% (43), whereas 31 to 50 age group consist of 44.16% (53) and the remaining 20% (24) are in the category of 51 & above age group. The respondent from the Above 51 category is completely dependent on their children.

Respondents by Occupation:

Respondents By Annual Income:

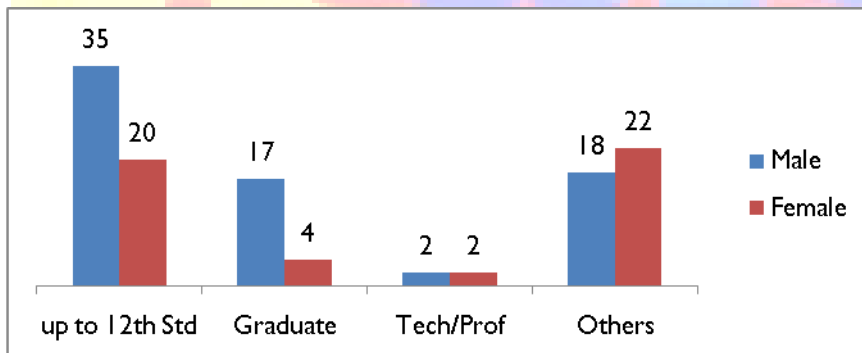


Source: Field survey

The above figures exhibit that the respondents from private employment category is dominating (49.17%) followed by others category (43.33%) who are either house wives or students or aged people. Respondents having annual income up to Rs.50,000 are dominating, followed by the category of Rs.50,001 to Rs.1,00,000. It shows that the income pattern among the respondents were very low. It shows that when the income level increases, the number of respondents decreases.

From the below mentioned figure, respondent's education pattern is classified into four groups. From that up to 12th Standard, (45.83%) and other category (33.33%) respondents are contributing the maximum. Others include unemployed, elders and students.

Respondents by Education



Source: Field survey

Banking Services Awareness:

Banking services around the world, shows their correlation with measures of outreach, and explore their association with bank. Barriers such as minimum account balances, account fees and required documents are associated with lower levels of banking outreach.

Respondent's awareness about banking services:

Respondents	Response		Total
	Yes	No	
Male	64(88.89)	8(11.11)	72
Female	34(70.83)	14(29.17)	48
Total	98(81.67)	22(18.33)	120

Source: Field survey

From the above data, it exhibits that majority (81.67%) of the slum people who live in the slums are aware about the banking services offered by the bankers and the remaining (18.33%) respondents said that they were not aware about the banking services. The data reveals that 88.89% male people and 70.83% female people said that they were aware about the banking service offered by the bankers.

Banking services through intermediaries:

In general, people open bank account for their personal wish. Majority of the urban poor who lives in slum area also opened their savings bank account with the help of others. There were four options given to the respondents to act for this purpose. 24% opened their bank account with the help of their friends, 47% o with the help of NGOs (SHG), 18% because of their employer and 11% with the help of government and bankers. It is clear from the survey that the Government entities do not help the urban poor who live in slum for opening an account with a bank.

Purpose of banking services:

The purpose of banking services is different from one person to other. The urban poor who live in slum in the study area were given four options like basic banking services, demand draft/mail transfer, loans and advances and business transactions. From the total, 88% respondents opined that they prefer to have account with bank for basic banking services, 4% said that for the purpose of demand draft or mail transfer, none said about loans and advances and 8% said that for the purpose of business transaction.

From the information, it is understood that the urban poor who live in slum were very much interested to have only basic banking services. Interestingly, none were reported for the purpose of loans and advances which means that neither they were aware about loans and advances nor

neglected by the banks. Probably they might have bitter experience to get loans and advances from the banks.

Financial Inclusion Strategy:

In November 2005, RBI asked banks to offer no-frills savings account which enables excluded people to open a savings account. Total number of No-Frill Accounts was 25.15mn as per the data available on May 30 2009. Out of which only 11% accounts are operational (2.77mn).

Researcher has used five financial inclusion strategy models in the selected area, among the total (48) female respondents, 75% (36) said that they were attracted by Bank-SHG Linkage Model, 16.67% (8) were told that Bank-MFI linkage model and the remaining (4) told that they were attracted by post office model. None of the female respondents were attracted by ICICI partnership model and MF-NBFC model in the study area. On the other hand, the total (72) male respondents, (44.44%) male respondents (32) said that they were attracted by Bank-MFI linkage model, 30.56% respondents (22) were attracted by post office model, 16.67% respondents (12) were attracted by MF-NBFC model, 5.55% respondents (4) were attracted by ICICI partnership model and the remaining (2) respondents were attracted by Bank-SHG Linkage Model.

From the survey, it is crystal clear that majority (75%) of the female are attracted by Bank-SHG Linkage model and in respect of male respondents, they were highly (44.44%) attracted by Bank-MFI linkage model and (30.56%) post office model. It is been observed that the ICICI partnership model has less impact in the study area.

Role of Technology:

Technology play vital role in offering banking services to all. The use of IT solutions for providing banking facilities at doorstep holds the potential for scalability of the FI initiatives. Pilot projects have been initiated using smart cards for opening bank accounts with bio metric identification. Link to mobile or hand held connectivity devices ensure that the transactions are recorded in the bank's books on real time basis. Some State Governments are routing social security payments as also payments under the National Rural Employment Guarantee Scheme through such smart cards.

Reserve Bank of India's Deputy Governor Dr. K.C.Chakrabarty, recently said that the mobile banking has tremendous potential as a medium of money transfer to the unbanked people but

cautioned to use it with utmost security features. With more telecom companies working on security features, very soon this will help reduce transaction costs and thus effectively bring down the interest rates of the micro-loans to the poor and unbanked people.

Respondent's Aware of technology:

Response	Yes	No	Total
Frequency	89%	11%	100%

Source: Field Survey

From the above figure, majority (89%) respondents said that they were aware about the technology in banking services. According to urban poor who live in the slum, technology means banking services are available like ATM services, Anywhere Banking, computerization of accounts information etc. The survey also shows that very less (11%) number of respondents were not aware about the technology in banking services.

Impact of Banking Services:

After 2005-06, banks are taking great steps to satisfy their customers by providing door step services. Now-a- days it becomes essential to the bankers to retain their customers. Due to heavy competition among the bankers, banks are in a position to satisfy their customers by providing unexpected services with least cost. Cost factors like opening account and maintaining the account are the major concern to the bankers especially to provide services to slum people in urban areas. Technology driven services only reduce the cost of the same to some extent.

Respondent's Impact on banking services:

Respondent	Fully Satisfied	To some extent satisfied	To some extent not satisfied	Not satisfied	Total
Male	12 (16.67%) (60%)	36 (50%) (60%)	22 (30.55%) (64.71%)	2 (2.78%) (33.33%)	(72)
Female	8(16.67%) (40%)	24(50%) (40%)	12(25%) (35.29%)	4(8.33%) (66.67%)	(48)
Total	20	60	34	6	(120)

Source: Field survey

From the above figure, it is clear that out of 72 male respondents, 16.67% said that they were fully satisfied, 50% to some extent satisfied, 30.55% to some extent not satisfied and 2.78% not satisfied with the services provided by the bankers. Out of 48 female respondents, 16.67% said that they were fully satisfied, 50% to some extent satisfied, 25% to some extent not satisfied and 8.33% not satisfied with the services provided by the bankers.

From the above observation, we can conclude that majority (66.67%) of the male and female respondents are satisfied with the services provided by the bankers followed by 28.33% said that to some extent not satisfied and 5% of the total respondents were not satisfied with the services provided by the bankers.

Challenges Ahead to Reach Financial Inclusion:

- Government Entities and Bankers with the help of NGOs to trap the unbanked people into the financial main stream.
- Develop more customer oriented models to reach the banking services to slum people.
- Banker-SHG Linkage must be strengthen and keep the model always sustainable through active participation of all the stakeholders.
- Simplify the procedure in obtaining financial services and it should be affordable to all the unbanked people.
- Technology must be used to reach the unbankable people to become bankable.
- Government incentives and schemes should be routed through banking system.
- Open MF institutions in all the slum areas.

Conclusion:

Offering banking services to urban slum people is a challenging task to every banker. Every banker has to satisfy the customers by providing doorsteps services for their survival in the computer era. Bank has to go beyond traditional system to cater the customer for its sustainability and include the marginalized and vulnerable section of the people in the finance stream to achieve the financial inclusion. The study proved that Mumbai Slum people are not fully aware about various services offered by the bankers. The study also proved that Technology through banking

services helped to achieve financial inclusion to some extent in the study area. The following are the findings.

- ❖ 81.67% urban poor people who live in the slum areas are aware about the banking services offered by the banks.
- ❖ 47% opened the bank accounts with the help of NGOs through SHG.
- ❖ 11% opened the account with the help of government and bankers.
- ❖ 88% respondents opined that they prefer to have account with bank for basic banking services.
- ❖ Among the (48) female respondents, 75% (36) said that they were attracted by Bank-SHG Linkage for financial inclusion strategy model.
- ❖ Among the (72) male respondents (44.44%) (32) were attracted by Bank-MFI linkage model and 30.56% respondents (22) were attracted by post office model for financial inclusion strategy.
- ❖ None of the female respondents were attracted by ICICI partnership model and MF-NBFC model for financial inclusion.
- ❖ Majority (89%) respondents said that they were aware about the technology in banking services.
- ❖ Majority (66.67%) of the male and female respondents are satisfied with the services provided by the bankers.

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