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A Study on the Service Quality of Financial Inclusion in Rural Area

Dr. Anoop V.
Assistant Professor, P.G. Department of Commerce
N.S.S. College (Affiliated under University of Kerala), Cherthala, Alapuzha,Kerala - 688541
Email: anoopindian123@gmail.com

ABSTRACT

Financial inclusion has become an issue of global concern, and it is equally important development matter in Economies of the under-developed, developing and developed nations. Creating an inclusive financial sector has gained growing global attention bringing to the fore the need for sustainable development strategies that include the masses, instead of a select few. Sustainable Financial inclusion creates better and more equal chances for people to improve their lives. It will promote economic justice and allows all citizens to contribute to a productive economy and society.

Service quality and customer satisfaction are very important concepts in financial inclusion. Service quality is the discrepancy between consumers' perceptions of services offered by a particular firm and their expectations about firms offering such services. It is very important for financial institutions to build up a competitive inclusive financial system since it could help them tackle these challenges they face in establishing a sustainable inclusive financial system. Analysis of service quality of financial inclusion will help to identify pitfalls in the financial inclusion movement and help financial institution to provide excellent services to their customers in order to have a sustainable inclusive financial inclusion. This study is an attempt to conduct service quality analysis of financial inclusion.

Key words: Financial Inclusion, Service Quality, Gap Analysis, Tangible, Reliability, Responsiveness, Assurance, Empathy, Product

Introduction

Financial inclusion has become an issue of global concern, and it is equally important development matter in Economies of the under-developed, developing and developed nations. Creating an inclusive financial sector has gained growing global attention bringing to the fore the need for sustainable development strategies that include the masses, instead of a select few. Sustainable Financial inclusion creates better and more equal chances for people to improve their lives. It will promote economic justice and allows all citizens to contribute to a productive economy and society.

Provisions for financial services play a critical part in development of rural economy by facilitating economic growth and reducing income inequality. Inclusive financial systems permit poor to smoothen their spending and insure themselves against economic uncertainties of - illness and accidents to theft and unemployment. It permits poor to save and to borrow and allowing them to build their assets, invest in education and entrepreneurial undertakings, and improve their livelihoods. Inclusive finance is especially expected to benefit underprivileged groups such as women, youth, and rural communities. For all these grounds financial inclusion has gained prominence in recent years as a means to develop the lives of the poor.

In India, since the early national plans, consecutive governments have laid emphasis on the link between improving access to finance and alleviate poverty. Measures and products designed to reach the unbanked and the poor have been advocated and consciously implemented for the last two decades in India. An array of institutions and interventions have been promoted towards delivery of financial services to the poor. Several measures have been taken by both the Reserve Bank of India and the Government to bring the financially excluded people to the fold of the formal banking services.

However, despite a prolonged attack on the problem financial exclusion, Invest India Incomes and Savings Survey data reveals that bank penetration rates around the country remain at only modest levels. Only 45 per cent of working population is financially included. In rural area 38 per cent of rural adult population is financially included, in urban area 62 per cent of working population are financially included.

Review of Literature

Gourav Vallabh, Sourabh Chathrath. (2006) highlighted that the rural population in India suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Rural households need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Rural households need access to financial institutions that can supply them with credit at lower rates and at reasonable terms than the conventional money-lender and thereby help them evade debt traps.

McKillop, Wilson, (2007) pointed out that Financial exclusion holds back its victims from progress and development by imprisoning them in a vicious cycle of social deprivation and poverty. It is impossible to measure the overall impact of financial exclusion on the excluded due the complex nature of this problem, However, the fact that it is closely interconnected with poverty, level of education, unemployment, health, family breakdown and exploitation from illegal and predatory lenders is highly documented

Lederle Nicole (2009) examines the consequences of gaining access to financial products and services and of becoming more capable of using these. The study investigated the key processes which promote financial inclusion and the wider consequences of becoming financially included for the individual concerned. It was found that financial exclusion is influenced by processes of social exclusion and is argued to have significant financial and social consequences for both individuals and communities. At the individual level, financial exclusion is associated with higher costs, money management problems, over-indebtedness and reduced employability.

V. Leeladhar (2006) observed that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counseling, savings and affordable credit. Hence banks would have to build up a definite policies to expand the outreach of their services to excluded population to promote financial inclusion.

Nirupam Mehrotra, V. Puhazhendhi (2009) is of opinion that despite the commendable achievements in the field of rural banking, issues such as slow progress in increasing the share of institutional credit, high dependence of small and marginal farmers on non-institutional sources, skewed nature of access to credit between developed regions and less developed regions loom larger than ever before.

S N Sharma and L P Padhy (2011) the success of sustainable financial inclusion heavily depends on the extent of financial literacy. Banks need to redesign their financial literacy strategies in view of incorporate specific plans to promote financial inclusion of underprivileged sections of the population

Shachi Prakash (2012) opines that the financial education and credit counselling has not get need emphasis in a country like India, the initiatives of banks in this respect as have remained only as initiatives even after a considerable time. He points out that the banks should realize the importance of financial education and credit counseling, particularly for promoting sustainable financial inclusion.

CRISIL (2013) while constructing inclisix it is observed that there is under penetration of formal baking facilities in most part of the India. Mearly one in two Indian has a saving account and only one in seven Indian has access to banking credit.

K Sasikumar., V Anoop (2013) observed that there is a need for banks to redesign their business strategies to incorporate specific plans to promote financial inclusion of the low income groups treating it not only as a corporate social responsibility, but also as a business opportunity. The business opportunity lies in exploiting the low margins-high volumes situation at the 'bottom of the pyramid' and seen in this context, financial inclusion would not only be socially desirable, but also would make a lot of economic sense.

The Committee on Medium-term Path on Financial Inclusion (2015) felt that although a quantum skip in banking access has taken place, a significant aspect of regional exclusion persists for diverse reasons that need to be addressed by stepping up the inclusion drive in the north-eastern, eastern and central states to achieve near-universal access.

Abheek Barua, Rajat Kathuria,and Neha Malik (2016) in The Status of Financial Inclusion, Regulation, and Education in India, reviews the modes of delivery and the regulatory arrangement being contemplated or recently introduced. They observed that India's financial inclusion program has witnessed a exemplar shift over the last decade, away from an emphasis on credit to a more comprehensive approach toward financial services they assesses the suitability objective envisaged as vital for inclusion, related challenge of revamping consumer protection laws, and imperative of improving financial literacy.

Tara Nair (2017) observed that just over half of all adults have access to a bank account. However, the rate of access to finance may vary, sometimes greatly between states. Kerala has often been mentioned for its progress in this regard, with the government declaring in 2014 that this southern state had reached full financial inclusion. However, just as there is great variation in financial access between states, there are also differences within states.

Research Gap

The term 'financial inclusion' has acquired universal acceptance as both a mere access to financial services as well as deeper processes. Much of the literature and discussion is limited to increasing the extent of availability of banking and financial services to the unbanked rather than its quality or sustainability and hence the study is attempted

Objective of the study

The study is conducted to measure the quality analysis of Financial Inclusion in the rural area.

Financial inclusion and Service Quality

People living in rural areas are underprivileged and disadvantaged to get basic financial services almost in all the developing countries. Financial services in the rural area are provided in informal and the formal manner by banks, postal savings banks, credit unions, finance companies, Co-operative institutions, and the whole range of other formal and quasi-formal nonbanking institutions. However financial inclusion initiative in the rural area merely remains with opening an account with financial institutions. People those living in rural areas of countries are still finding it difficult to avail apposite financial services. The financial inclusion in pastoral area is not as good as it is in town part of countries. Supplying financial services to this disadvantaged segment of society is a tough task.

Inclusive finance is the key of overall economic development rural area. Access to financial services or outreach of the financial system to rural area has become a major concern. It is important to understand not only the actual use of financial services, but also access across its different dimensions. Collecting indicators of and barriers to access and comparing them to usage would enable researchers and policy makers to have a better understanding of reasons for low access. Services may be available but may not be customized to different needs, or points of delivery may be few, or delivery may take a very long time. Hence it is important to assess the quality of access as well as quantity.

Quality and customer satisfaction are very important concepts in financial inclusion. It is very important for financial institutions to build up a competitive inclusive financial system since it could help them tackle these challenges they face in establishing a sustainable inclusive financial system. Quality of financial inclusion is an important factor in sustainable financial inclusion. Quality refers to product planning and delivery traits that improve the value of services to clients. Quality financial inclusion attributes the following traits: convenience, affordability, product-fit, safety, dignity of treatment, and client protection which prompt the people to attach them towards the formal banking system.

Service quality is the discrepancy between consumers' perceptions of services offered by a particular firm and their expectations about firms offering such services. If what is perceived is below expectation, consumer judges quality as low and if what is perceived is meets or exceeds expectation then consumer sees quality to be above average. Critical component of service quality identified are; consumer's expectation as what they feel service provider should offer and this would be influenced by his/her personal needs, past experience, word-of-mouth and service provider's communications.

Service quality and customer satisfaction are very important concepts in identifying pitfalls financial inclusion. It helps financial institutions to build up a competitive inclusive financial system by tackling the challenges they face in establishing a sustainable inclusive financial system.

Methodology

The article "A Study on the Service Quality of Financial Inclusion in Rural Area" is prepared on the basis of study conducted by the researcher in four districts of state of Kerala with highest number of unbanked villages, viz Trivandrum, Kollam, Malapuram and Palakkad. A deliberative effort has been taken by the researcher to measure service quality of financial inclusion; a structured interview schedule was used to conduct the survey. Data were collected from financially included households, inducted in to formal financial system as the part of financial inclusion plan accordingly data were collected from 600 households. Convenient sampling was used in the study. SERVQUAL analysis was used for measuring service quality of financial inclusion in the rural area and paired t test was also use for analysis of the data.

Sample Design

Name of district:	Name of block:	Name of village:	No. of samples (Households):
Palakkad	Manarcaud	Kottopadam	50
		Thachanattukara	50
		Kumaraputhur	50
Malapuram	Wandoor	Karakunnu	50
		Chembrassery	50
		Vettikattiri	50
Kollam	Pathanapuram	Alayman	50
		Edamulackal	50
		Pttazhi Vadakkekara	50
Trivandrum	Vamanapuram	Kurupuzha	50
		Koliyakode	50
		Thennor	50
Total			600

Sample Profile

Sample respondent comprises of households belonging to Scheduled Caste, Scheduled Tribe, Other Backward Communities and General Community.

Table 1 : Sample profile

Category		District				Total
		Trivandrum	Kollam	Palakkad	Malapuram	
Social category	SC	38 (25.3)	38 (25.3)	13 (8.7)	24 (16.0)	113 (18.8)
	ST	15 (10.0)	18 (12.0)	45 (30.0)	26 (17.3)	104 (17.3)
	OBC	81 (54.0)	73 (48.7)	80 (53.3)	89 (59.3)	323 (53.8)
	GEN	16 (10.7)	21 (14.0)	12 (8.0)	11 (7.3)	60 (10.0)
Total		150	150	150	150	150

Source: Field survey (Figures in the parenthesis shows percentage)

Out of 600 households interviewed 18.8 per cent of respondents belong to Schedule Caste, 17.3 per cent belong to Scheduled Tribe, 53.8 per cent belong to Other Backward Community and 10.0 per cent belong to Forward Castes ie; General category.

Data Analysis and Result Discussion

Gap analysis has been conducted to measure the difference between expectation and perception of the households, Paired t test is used to test the statistical significance of the Gap. SERVQUAL analysis also conducted for measuring the quality of financial inclusion.

Gap Analysis

Gap analysis is the essential part of service quality assessment. The expectation and perception of household on financial inclusion models were measured on six different dimensions of service.

Gap Analysis (Tangible)

Tangibles measures factors such as Physical access facilities, equipment and appearance of personnel. The result of the gap analysis on tangibles is shown in the table 2

Table 2 : Gap Analysis (Tangible)

Dimension	Mean Value		Gap (P-E)	t	p
	Expectation	Perception			
Tangibles	**5.79**	**4.60**	**-1.09**	**21.79**	**0.000**
Physical access	5.81	4.21	-1.6	25.09	0.000
Location	5.82	4.26	-1.56	24.25	0.000
Facility	5.76	5.11	-0.65	17.76	0.000
Qualified employees	5.78	5.21	-0.57	17.65	0.000

Source: Compiled from primary data

Table 2 shows results of Gap analysis of tangibles aspects of financial inclusion. As regard to the four determinant of tangible, mean perception score is lesser than mean expectation score in all determinant of tangible. Household level of perception of physical access and location reveals more deviation from the expectation. The Gap analysis reveals that there is a gap of -1.09 between household's level of perception and level of expectation on **Tangibles**, it indicating that the banks generally failed to meet the expectation of vulnerable customers in the rural area and the result of paired t test (t value 21.79, p value >0.05) affirms that there significant difference between expectation and perception of rural customers on tangibles attributes of banking services.

Gap Analysis (Reliability)

Reliability denotes the ability of financial institutions to perform the promised service dependably and accurately. Table 3 shows the Gap analysis of reliability aspects of financial inclusion.

Table 3 : Gap Analysis (Reliability)

Dimension	Mean Value		Gap (P-E)	t	p
	Expectation	Perception			
Reliability	**5.37**	**4.38**	**-0.99**	**25.93**	**0.000**
Service fulfillment (Saving)	5.12	4.26	-0.86	18.06	0.000
Service fulfillment (Credit)	5.14	3.98	-1.16	19.60	0.000
Service fulfillment (Remittance)	5.61	4.97	-0.64	23.39	0.000
Problem handling	5.42	4.51	-0.91	22.73	0.000
Speed	5.51	4.28	-1.23	23.60	0.000
Efficiency	5.47	4.32	-1.15	22.80	0.000

Source: Compiled from primary data

The result of Gap analysis shows that mean score on the level of perception of rural customers on reliability of banking services offered to them is less than the mean score of level of expectation on all aspects of reliability, i.e. the main frame banking institutions failed to meet the expectation of less affluent households. The gap analysis of Reliability shows that there is a gap of -0.99 between the expectation and perception of households on and the result of paired t test (t value 25.93, p value >0.05) statistically affirms that there significant difference between expectation and perception of rural customers on reliability attributes of banking services.

Gap Analysis (Responsiveness)

Responsiveness is the willingness of employees to help customers and provide prompt service. Table 4 shows the gap analysis of responsiveness aspects of financial inclusion.

Table 4 : Gap Analysis (Responsiveness)

Dimension	Mean Value		Gap (P-E)	t	p
	Expectation	Perception			
Responsiveness	**5.55**	**3.77**	**-1.78**	**31.15**	**0.000**
Information	5.48	3.46	-2.02	35.80	0.000
willingness	5.49	3.99	-1.5	27.93	0.000
Prompt service	5.62	4.15	-1.47	27.47	0.000
Quick responds	5.65	3.50	-2.15	38.15	0.000

Source: Compiled from primary data

The result of Gap analysis shows that the household's level of perception is higher than the level of expectation on all factors of responsiveness; it shows that bank employees were not so efficient in providing basic needy services to poor households. In the case of Responsiveness the result of Gap analysis shows a difference of -1.78 between household's levels of perception and level of expectation. The result of paired t test (t value 31.15, p value >0.05) shows that the difference between household's levels of perception and level of expectation on Responsiveness is statistically significant.

Gap Analysis (Assurance)

Assurance symbolizes the Knowledge and courtesy of employees and their ability to inspire trust and confidence among customers. Table 5 shows the Gap analysis of Assurance aspects of financial inclusion.

Table 5 : Gap Analysis (Assurance)

Dimension	Mean Value		Gap (P-E)	t	p
	Expectation	Perception			
Assurance	**5.51**	**4.02**	**-1.48**	**30.13**	**0.000**
Customer education	5.47	3.32	-2.15	36.60	0.000
Credit counseling	5.25	3.47	-1.78	27.96	0.000
Security and trust	5.69	5.18	-0.51	11.50	0.000
Right time service	5.65	4.14	-1.51	25.72	0.000

Source: Compiled from primary data

Again the result of Gap analysis shows that mean perception score is lesser than mean expectation score in all determinant of Assurance; that is the main frame banking institution were failed to create the new knowledge, confidence sense of security about financial institution and system among the households. The Gap analysis of Assurance shows difference of -1.48 between household's levels of perception and level of expectation. paired t test conducted on the mean perception score and expectation score on assurance (t value 30.13, p value >0.05) shows that is significant difference between household's levels of perception and level of expectation on Responsiveness.

Gap Analysis (Empathy)

Empathy is the Caring and individualized attention that the bank seeks provides to its customers. Table 6 shows the gap analysis of Empathy aspects of financial inclusion.

Table 6 : Gap Analysis (Empathy)

Dimension	Mean Value		Gap (P-E)	t	p
	Expectation	Perception			
Empathy	**5.36**	**3.79**	**-1.57**	**31.53**	**0.000**
Individual attention	5.27	3.44	-1.83	29.89	0.000
Convenient operating hours	5.63	4.80	-0.83	16.84	0.000
Personalized service	5.28	3.47	-1.81	29.00	0.000
Need based service	5.29	3.47	-1.82	28.57	0.000

Source: Compiled from primary data

As regard to Empathy, the result of gap analysis shows that household's level of perception is lesser than the expectation about all factors of Empathy; empathy is an important factor which holds together the rural households with the formal financial system. Unfortunately the main frame commercial banks failed to meet the expectation of rural households. The gap analysis reveals a difference of -1.57 between household's levels of perception and level of expectation. The result of paired t test conducted on mean perception score and expectation score on Empathy (t value 31.53, p value >0.05) shows that there is significant between household's levels of perception and level of expectation on Empathy.

Gap Analysis (Product)

Product stands for the Availability of suitable, convenient, innovative and cost effective financial products offered as part of financial inclusion. Table 7 shows the Gap analysis of product aspects of financial inclusion.

Table 7 : Gap Analysis (Product)

Dimension	Mean Value		Gap (P-E)	t	p
	Expectation	Perception			
Product	**5.42**	**4.12**	**-1.29**	**22.06**	**0.000**
Availability	5.19	4.11	-1.08	20.21	0.000
Innovation	5.12	4.21	-0.91	18.98	0.000
Easy to use and convenience	5.74	3.56	-2.18	35.82	0.000
Cost effective	5.66	4.63	-1.03	22.45	0.000

Source: Compiled from primary data

Product is an important factor determines sustainability of financial inclusion. It is apparent from the table that there difference in the expectation and perception of household on availability, innovativeness, convenience and cost effectiveness product offered under financial inclusion. The Gap analysis on the attribute of Product shows that there is a difference of -1.29 between the household's levels of perception and level of expectation. Further paired t test conducted on mean perception score and expectation score on (t value 22.06, p value >0.05) shows that there is significant between household's levels of perception and level of expectation on product

The detail Gap analysis of each dimension shows that there is significant difference between the household's levels of perception and level of expectation in Responsiveness about Information (-2.02) and Quick response (-2.15), since responsiveness is one of the core area which hold firmly the rural population with formal banking sector, banks need to improve their responsiveness in favour of affluent customers. It is also noted that there is a significant pitfall in Assurance with regard to Customer Education (-2.15), the policy makers and bank should promote financial literacy among rural customers further in Product there is significant difference between the household's levels of perception and level of expectation about Easy to use and convenience (-2.15) it point out that the less affluent people facing difficulty in using financial product offered to them, if possible policy maker may think about tailor made products for the less affluent rural customers.

Service Quality Analysis

SERVQUAL Analysis is a principal instrument in the services marketing literature for assessing quality. This instrument has been widely utilized by both managers and academics to assess customer perceptions of service quality for a variety of services. Table 8 depicts Service quality analysis of banking services offered to the rural households.

Table 8 : Service Quality Analysis

	Tangible	Reliability	Responsive	Assurance	Empathy	Product
Weighted Avg. Gap	-0.273	-0.248	-0.267	-0.222	-0.157	-0.129
SERVQUAL	-1.299					

Source: Compiled from primary data

Table 8 depicts Service quality analysis of banking services offered to rural people. A positive score on attribute of service quality shows the efficiency of service providers to meet the expectation of customers and negative score reveal the weakness of the service provider.

Weighted average Gap score calculated for each dimension reveals that; on Tangible, there exist a gap of - 0.273; on Reliability, there a gap of - 0.248, on Responsiveness, there a gap of - 0.267, on Assurance, there a gap of – 0.222, on Empathy, there a gap of – 0.157 and on Product there exists a gap of – 0.129.

ServQual value computed on the basis above Weighted Avg. Gap value of all attributes of service quality is '-1.299'; which indicates that the rural households are not fully satisfied by the banking facility offered to them, it fails to meet the expectations of households.

Conclusion

Service quality and customer satisfaction are very important concepts in financial inclusion. It is very important for financial institutions to build up a competitive inclusive financial system since it could help them tackle these challenges they face in establishing a sustainable inclusive financial system. This means that the main frame financial institution should provide excellent services to their customers in order to have a sustainable competitive advantage.

Service quality is the discrepancy between consumers' perceptions of services offered by a particular firm and their expectations about firms offering such services. If what is perceived is below expectation, consumer judges quality as low and if what is perceived is meets or exceeds expectation then consumer sees quality to be above average.

The service quality analysis of financial inclusion through banks shows that there is dearth in the quality banking services offered to the rural households. There is imperative need to improve the responsiveness of bank employee towards less affluent people. The bank should provide special care to impart financial literacy and financial counseling to the less affluent people.

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