

Divergence of Financial Inclusion: Rural Vs. Urban in Arunachal Pradesh – An Analysis of Supply Side

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ABSTRACT

“India is a country of villages” is a proverbial line only if we count the growth and development in the country. The bitter truth is the exclusion of most of the rural areas from the mainstream financial system which ultimately lead to poverty and exploitation. Therefore, financial inclusion is one of the strongest tool in up-lifting the economic conditions of the rural masses as banks help in mobilising the savings and incomes in profitable channels and also providing access to credit and insurance against the risk. But the divergence of banking outreach in rural and urban areas is a reason for more people as excluded in rural areas than urban. This is more relevant to the economy of Arunachal Pradesh when the region is yet to exploit the full banking potentials for productive purposes. The present paper tries to study the divergence of the banking outreach among rural and urban areas of Arunachal Pradesh.

Keywords: Financial Inclusion, Supply Side, Banking Outreach, Arunachal Pradesh, Banking, Credit, Insurance.

INTRODUCTION:

Arunachal Pradesh is the largest state in north east regions of India, though rich in her natural beauty, is considered to be the most backward in economic parameters among the north eastern states. Lack of avenues of income and investment in the state leads to widespread unemployment as compared to other states of the country. Against this outlook the state has ample of scope for development. Therefore, financial inclusion may be one of the strongest tool in up-lifting the economic conditions of the people of the region. Because banks help in mobilising the savings and incomes in profitable channels to uplift the economic conditions. An efficient banking system believe to contribute in an extensive way towards a higher economic growth in any economy. This is more relevant to the economy of Arunachal Pradesh when the region is yet to exploit the full banking potentials for productive purposes. If the scheduled commercial banks have widened their network to rural parts of the state, then that will lead to a fast economy growth of the region. Though the formal sector has adopted multi agency approach throughout the country, the commercial banks and co-operative banks are the only two channels to intervene in the rural financial intermediation in this part of North East India.

The success of financial inclusion always depends on the performances of both the sides i.e., the service providers and the users. Although the financial services industry appears to be competitive with hundreds of providers and literally thousands of products on offer, this activity does not always work in the interest of rural population. The financial inclusive initiations are place-biased. To tackling those supply side barriers to access should create a better environment for retail financial services providers to extend the access to a wider range of consumers, it is pertaining to know the divergence in this aspect with respect to the urban and rural areas.

LITERATURE REVIEW:

‘Inclusive growth’ is the process equitable allocation of resources, where involvement and benefits accrue to all sections of the society to achieve the equity objective in growth. Thus, it is referred as ‘economic growth with equal opportunities to all’. It is nothing but creating growth opportunities and making them accessible to all particularly to the poor (Ali & Zhuang, 2007).

The social and economic gap between the welfare of the rural area and urban area in India has always been vast. According to Census 2011, urban area is defined as all places with a municipality, corporation, cantonment board or notified town area committee, etc. And all other places which satisfied the following criteria are urban areas- a place with minimum population of 5,000 where at least 75% of the male main working population engaged in non-agricultural pursuits; and a density of population of at least 400 persons per square kilometre (1,000/sq mi). On the other hand, all areas which are not categorized as Urban area are considered as Rural Area. According to Census of India’s 2011, out of the 121 crore Indians, 83.3 crore (68.84%) live in rural areas while 37.7 crore (31.16%) stay in urban areas.

As per the RBI and World Bank estimation, with 68.84 percent of India’s poor households located in rural locations are considered as financially excluded. The financially excluded segment in India consists of largely labourers, marginal farmers, unorganized sector work-force, urban slum residents and socially excluded groups like women and tribal. The common reasons for their financial exclusion are:

- i) Limited access to financial services;
- ii) Poor infrastructure, notably power, transport, and communications;
- iii) Limited information about market opportunities;
- iv) A lack of education and training; and
- v) Limited access to new information and communication technology.

Paramasivan and Ganeshkumar (2013) opined that inclusive growth is possible only through proper mechanism which channelizes all the resources from top to bottom by promoting the banking habits of the rural people because, India is considered as largest rural people consist in the world. Financial inclusion is aimed at providing banking and financial services to all these people in a fair, transparent and equitable manner at affordable cost. But a wide gap in accessibility in rural areas make these masses excluded from the mainstream financial system in India.

Shastri (2014) discussed the role of financial inclusion in Madhya Pradesh with reference to Rural Population and concluded that lack of sound financial infrastructure is the key for the development of financial inclusion in the rural areas. He also reiterated that there exists a wide gap between the rural and urban financial facilities.

Tamilarasu (2014) explained that financial inclusion growth is possible only through proper mechanism which channelizes all the resources to all the direction of the customers. Because India is considered as largest rural populations in the world and belongs to agriculture activities, financial inclusion is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost and easy accessibility. Due to these lacks a lower level of financial inclusion prevails in the rural areas as compared to urban setup.

The Global Findex had surveyed 105 developing countries including India with respect to the rural residents’ perception about their own financial exclusion. In all, 25 percent of rural residents without an account in developing economies say they don’t have an account in part because banks are “too far away”. The Global Findex database suggests that a key to reducing the gap in financial inclusion is new products and technology, and accessible banking services, particularly to women and rural poor (Klapper, 2012)

Increasing the outreach of banks to cover the rural borrower with low credit needs has been one objective the nation has been pursuing religiously since 1950s, till date. But the reality of financial inclusion is eluding more than half the population. A report published by the Business Standard, on 28 June 2013, quoting from a recent CRISIL study highlighted that - bottom 50 districts out of 632 in India have just 3 banks per 100,000 people, slightly more than 50% of population just has a simple savings bank account; and just one in two Indians has access to a savings bank account and just one in seven Indians has access to bank credit. There are merely 684 million savings bank accounts in the country with a population of 1.2 billion. The CRISIL study conducted on the basis of three parameters - branch, deposit and credit penetration across the 632 districts in India shows the bottom 50 districts have just three banks per 100,000 of population, just half of the 7.6 bank branches on an all-India level. These districts have just 2% of the total bank branches in the country. Besides, they also have just 4,068 loan accounts per 100,000 of population as compared to an all-India level of 11,680 accounts. Lack of awareness, low incomes, poverty and illiteracy are among the key factors that lead to a low demand for financial services and, consequently, to exclusion. (CRISIL, 2013; Warrior, 2013)

According to the 2011 Census, 70 per cent of India's population lives in villages. If one looks at the distribution

of bank branches in India, published by the Reserve Bank of India (RBI) every quarter, it is found that little more than one-third branches - 36.73 per cent or 49,132 - are in rural areas (September 2017 RBI data). So, there is a wide mismatch. There is a geographical disparity too. Ratings agency CRISIL's financial inclusion index (Inclusix) reports a score of 62.2 for the southern region and 28.6 for the eastern region. The RBI data support CRISIL's findings. It shows that the eastern region has 16.25 per cent of all reporting offices and credit deposit, or CD, ratio of 44.47. The comparative figures for the southern region are 27.95 per cent and 88.22, respectively. There are reasons for the reluctance of the banking sector to reach out to the masses, particularly in rural India. The low transaction size and volume make cost an inhibiting factor. Technology can bring down costs but one needs to spend on the right kind of technology as even after putting in place the right platform, it may not always be smooth sailing for banks as connectivity is a major issue in remote rural pockets. Naturally, it takes long to make the business profitable. So, it needs deep pockets and enormous patience, besides skills and the right products. The hindrances are poor internet connectivity, frequent power cuts and unwillingness of employees to service the rural masses. This adds to the cost in rural areas and to add to the banks' disorientation towards rural and unbanked areas.

A recent survey by Standard & Poor's Ratings Services found that 76 per cent Indian adults do not adequately understand key financial concepts. It may sound a bit harsh but the reality is that financial literacy in India is nobody's baby. The people living in rural India are still apprehensive about using the services of financial institutions, so as the setting up of branches by the banks. The not-so-friendly attitude of the staff, lengthy paper work and lack of understanding of the processes and products scare them away. They do not mind borrowing from local money lenders even at high interest rates due to less or no paperwork. Thus, there lies a wide gap in urban and rural financial inclusion (Ghosh, 2016)

World Bank research report on access to finance (2008), states that, financial access can have direct and indirect benefits on small firms and poor households, makes them more capable to take advantage of investment opportunities and insures them against risks. Studies (2009) by using cross-sectional data on households in some developing countries, it was concluded that the accessibility is the major reason for financial exclusion. The worst sufferers are the rural dwellers, tribal and women who are far from the bank coverage (WB, 2008, 2009).

To assess the nature and extent of financial inclusion and its impact on the socioeconomic status households belonging to vulnerable sections focusing inclusive growth, an analysis with the theoretical background on financial access and economic growth, and the primary data collected from the Revenue Divisions of Karnataka was made. The results show that, there is disparity in nature and extent of financial inclusion. Access to, availing of formal banking services pave the way to positive changes in the socio-economic status of households belonging to vulnerable sections which are correlated, leading to inclusive growth. Thus, to make financial system more inclusive and pro-poor, regional disparity has to be eliminated or reduced (Serrao et.al., 2016, 2012).

Finally, 'Financial inclusion' and 'inclusive growth' are the buzz words today. Inclusive growth empowers people belonging to vulnerable sections. This in turn depends upon a variety of factors- the most important being "institutional reachability", which plays a strategic role in promoting inclusive growth and helps in reducing poverty by providing regular and reliable sources of finance to the vulnerable sections.

RESEARCH METHODOLOGY:

It is a fact that the status of financial inclusion is very dismal in Arunachal Pradesh. The state has a massive rural land covering 73.67% of the total landmass and includes 67% of the total populations. Thus, it is pertinent to see a progress in the levels of bankability among the masses with a higher bank outreach. The bank, credit and insurance penetration are crucial factors for the socio-economic transformation of the poor. This ensures requisite savings, timely access to credit and insurability against the future eventualities which in turn develops his living standard and style. Arunachal is a village dominated state and the bankability of the masses is at the bottom of the table, so as the existence and development of the basic infrastructures. Though the concept of financial inclusion has gained a good ground in other states in the mainland as well as in the NER, the state fell short. Academically, this is still a virgin area where no research studies have been conducted till date. Even if some casual studies were undertaken here and there, the divergence between rural and urban has not yet been covered. This creates a wide research gap and an academic void in the academic field.

The present research endeavours aim to study the supply side of the financial inclusion and the degree of divergence in provision of various services provided by the service providers in the rural and urban areas of Arunachal Pradesh through the testing of the following null hypothesis:

H0: There is no divergence present in rural and urban areas of Arunachal Pradesh with respect to the supply side

variables of financial inclusion.

For the present study, which is analytical and based on comparative analysis, the secondary data from various published and unpublished sources were collected and analysed.

Divergence in Banking Outreach (Rural vs. Urban) in Arunachal Pradesh – an Analysis:

Banking Coverage:

The banking outreach is one of the most significant factors in making financial services available to all sections of society. This is more relevance in the context of Arunachal Pradesh where economy is in the nascent stage and as such banking facilities typically tend to exclude vast section of populace, especially the rural areas. The data presented in table 1 shows that out of total bank branches 187, 57.75 percent branches are working in rural areas (108) and 42.24 percent of bank branches are functioning on urban areas (79). Excluding the APRB and APSCB, the distribution of other CBs (Private and Public sector) are 50:50, i.e., 61 branches each in rural and urban areas. SBI has the maximum number of branches (59) and followed by APRB (28) and APSCB (37). With respect to the rural branches, SBI has the maximum of 45 branches whereas APRB and APSCB have 22 and 25 branches respectively.

Table No 1: Details of bank branches in Urban and Rural (AP)

Bank	Rural	Urban	Total
Commercial Banks	61 (50%)	61 (50%)	122
APRB	22	6	28
APSCB	25	12	37
Total	108 (57.75%)	79 (42.24%)	187

Source: SLBC report March 2018

The flourishing figures of distribution of number of branches in rural areas is not the real scenario of banking coverage in rural areas of Arunachal Pradesh. Table 2 indicated the dismal picture of rural coverage as only 9 branches are there for 1 lakh rural population and in each 10 sqr km only 0.015 branches are there in comparison to 0.073 branches in urban areas and 0.022 in whole states. The CD ratio is very poor in rural areas (19.36) in comparison to urban areas (42.03) and the state average of 35.01.

Table No 2: Banking Outreach in Study Area as on 31.03.2018

Area	No. of banks	%	Branches per 1 Lakh population	Branches per 10 sqr. km	CD Ratio
Rural	108	57.75	9.00	0.015	19.36
Urban	79	42.24	24.80	0.073	42.03
Total	187	100	13.50	0.022	35.01

Source: SLBC report March 2018 and Census 2011

In terms of different types of accounts, the difference between urban-rural areas has been presented in the table no 3. With respect to the current accounts, 71.76% accounts holder belongs to urban areas who held 64.72% of the total deposits at the end of FY 2017-18. In terms of savings bank accounts, only 32.28% of the total accounts holder belongs to rural areas who held 24.95% of the total deposits in the state. As well, in terms of term deposits, 23.17% accounts holder belongs to rural areas who held 28.58% of the total deposits. With respect to the total accounts, 69.06% of the accounts are held by urbanites which holds 73.16% of the total deposits. The banking penetration is very low in rural areas in comparison to urban areas as same number of schedule commercial bank branches are present in rural areas and more numbers of RRBs and APSCB branches.

**Table No 3: Deposits of Scheduled Commercial Banks according to the Types of Deposit
(No. of Accounts in Thousand, Amount in Rs. Million)**

FY	Area	Current		Savings		Term		Total	
		Amount	No.	Amount	No.	Amount	No.	Amount	No.
2017-18	Total	13,100	100.62	93,957.2	867.7	11,600	456.65	1,18,657.2	1,424.97
	Urban	9,400	65.12	63,632	651.2	8912	326.12	81944	1042.44
	%	71.76	64.72	67.72	75.05	76.83	71.42	69.06	73.16

FY	Area	Current		Savings		Term		Total	
		Amount	No.	Amount	No.	Amount	No.	Amount	No.
	Rural	3,700	35.50	30,325	216.50	2,688	130.53	36713.2	382.53
	%	28.24	35.28	32.28	24.95	23.17	28.58	30.94	26.84

Source: RBI Reports

The table 4 provides the information about the growth rate of deposits and number of accounts in banks for the FYs from 2012-13 to 2017-18. It has been found that the growth rate in rural customers are very dismal in comparison to the urban counterparts. The number of accounts had even decreased in the FY 2013-14 and a massive surge of 23.81% is found in the FY 2015-16 but after that a slump happened with a growth rate of 16.92 and 9.38% in subsequent FYs. In last 6 FYs, the growth of 73.18% is recorded in terms of number of accounts in rural areas in comparison to 120.93% rise in urban areas. With respect to the growth in the amount of deposits in last 6 FYs the rise is 69.18% in rural areas and 125.57% in urban areas. As the people have an increased awareness about banking, the figures grow at a greater speed but the divergence presence between rural and urban has been widened too.

Table No 4: No. of Accounts (in '000) and Deposits (in Rs. Million) of SCBs

FY	Rural				Urban			
	Accounts	Change%	Deposits	Change %	Accounts	Change%	Deposits	Change %
17-18	665	9.38	33324.1	3.40	760	22.38	85333	54.89
16-17	608	16.92	32227.7	9.56	621	14.58	55093.6	8.73
15-16	520	23.81	29414.3	11.21	542	23.46	50671.3	3.83
14-15	420	12.00	26448.2	16.28	439	18.01	48803.7	3.03
13-14	375	-2.34	22745.2	15.47	372	8.14	47368	25.21
12-13	384	-	19697.3	-	344	-	37829.9	

Source: RBI Reports

Table No 5: Credit Details of Commercial Banks

FY	2017-18		2016-17		2015-16		2014-15	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
No. of Accounts	7456	29479	7409	28468	7700	25764	7691	23020
	20.19	79.81	20.65	79.35	23.01	76.99	25.04	74.96
Credit Limit (in Rs Crore)	219.84	1825.9	178.19	1630.33	186.86	1473.46	167.95	1265.28
	10.75	89.25	9.85	90.15	11.25	88.75	11.72	88.28
Amount Outstanding (in Rs Crore)	166.67	1460.94	147.95	1301.62	134.24	1139.58	107.59	953.82
	10.24	89.76	10.21	89.79	10.54	89.46	10.14	89.86

Source: RBI Reports

Similar story is also presented with respect to the credit penetration in the state which has been presented in Table 5. The growth from FY 2014-15 to 2017-18 indicated a very slow growth in rural areas i.e., -3.06% in number of credit accounts, 30.90% in credit limit and 54.91% in outstanding credit whereas in urban areas the figures are 28.06%, 44.31% and 53.17% respectively. The percentage of rural creditors to the total has decreased from 25.04% in FY 2014-15 to 20.19% in FY 2017-18 and the credit limit was also decreased from 11.72% to 10.75% during the same period. Thus, the variation among the urban and rural areas are very much significant. The credit penetration is very low in the state due to the low disbursement of housing and education loans. The major share of credit is with respect to the vehicle and personal loans. The lack of appropriate title deed of the land may be a reason for this.

Insurance Coverage:

Table 6 presents the number of life insurance policies taken and associated premium paid in rural and urban areas of Arunachal Pradesh. It is evidenced from the table that number of insurance taken by the Arunachal Pradesh population has been declined over the years. Number reaches its peak in the year 2015-16 with 15529 numbers of policies with total premium of Rs. 95.30 million and a decline was recorded after that as total

number of policies taken during the year 2017-18 is 10330 (in thousands) with total premium of Rs 31.90 million. Out of total number of insurance policies taken, only 5.54 % are sold in rural and 94.46 % in urban areas. Variance may be because of difference in income level, awareness and reachability. The insurance companies did not address this need of rural population groups to a greater extent. However, awareness regarding life insurance policies and general insurance for vehicles were found substantially higher than all other types of insurance in the state.

Table No 6: Number of life insurance and premium in rural and urban areas

FY	No. of Life Insurance Policies (in number)			Premium from Life Insurance Policies (in Rs. million)		
	Total	Rural %	Urban%	Total	Rural %	Urban%
2013-14	14250	5.23	94.77	39.51	4.01	95.99
2014-15	15396	4.55	95.45	57.48	4.02	95.98
2015-16	15529	4.70	95.30	31.82	4.05	95.95
2016-17	13370	4.82	95.18	33.91	4.15	95.85
2017-18	10330	5.54	94.46	31.90	5.32	94.68

Sources: IRDA Handbook on Indian Insurance Statistics 2017-18

Comparing the statistics presented in table 7, it is found that the percentage of share of rural with respect to the gross direct premium income from all types of policies has been slightly increased to 9.38% in FY 2017-18 from 7.29% in 2012-13 and a growth of more than 10 times in the amount. But it can not be comparable with the figures of urban areas, as it recorded a growth from Rs. 559.25 lakhs to Rs.4326.66 lakhs at nearly 6.7 times during the same period. Though the growth of insurance penetration is quite similar in both the areas in percentage but in absolute terms it is far apart.

Table No 7: Gross Direct Premium Income (all type of policies) (in Rs. Lakh)

FY	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
AP	603.22	1008.4	12908.75	1931.99	2603.45	4774.51
Rural	43.97	82.18	1062.39	164.03	234.57	447.85
%	7.29%	8.15%	8.23%	8.49%	9.01%	9.38%
Urban	559.25	926.22	11846.36	1767.96	2368.88	4326.66
%	92.71%	91.85%	91.77%	91.51%	90.99%	90.62%

Sources: IRDA Handbook on Indian Insurance Statistics 2017-18

Generally, insurance penetration measures the contribution of insurance premium to the Gross Domestic Product (GDP) of a country in percentage terms. Insurance density, on the other hand, is the ratio of insurance premium to the total population. It gives an indication of how much each of the people in a country spends on insurance in terms of premium. In other words, it is the per capital premium for the country, calculated by dividing total insurance premium by the population. Insurance density is used as an indicator for the development of insurance within a country and is calculated as the ratio of total insurance premiums to whole population of a given state. Insurance Density compares insurance sales volume of a customer group to another. Data pertaining to Insurance Penetration (in percent) and Insurance Density (in Rs) in study area is shown in table 8. Insurance penetration is very low in the state as well the figures dipped over the years i.e., from 0.57 in the FY 2009-10 to 0.27 in FY 2012-13 but in the next fiscal it was bit raised to 0.32. The rural-urban penetration is also showing a large variation. In the FY 2013-14, it was 0.004 for the rural population and 0.028 for urban. The statistics about the insurance density also depicts the same picture of rural-urban variations i.e., 328.93 in urban areas and 145.73 in rural areas in the FY 2013-14. The other fiscals also provided the equivalent scenario. But the sudden decline of the insurance penetration in the state after FY 2009-10 (the decline presented in the table from FY 2013-14 is a part of that decline) cannot be explained by the Insurance Companies working in the state but as some officials cited the reason that many claims are premeditated and manufactured which leads to a huge loss to the companies and others cited the inaccessibility and the people's flamboyant attitude as a cause for the decline in the insurance in the state. The state is basically dominated by the tribal population who are very careless about their future, rather they are present-dwellers, which may be a cause for the slide.

Table No 8: Insurance Penetration (in percent) and Insurance Density (in Rs)

Insurance Penetration (in percent)				Insurance Density (in Rs)			
FY	AP	Rural	Urban	FY	AP	Rural	Urban
2013-14	0.57	-	-	2009-10	308.5	126.12	418.67
2014-15	0.48	.001	.047	2010-11	292.4	122.78	398.23
2015-16	0.61	.001	.060	2011-12	415.7	178.23	487.38
2016-17	0.27	.003	.024	2012-13	229.9	104.61	327.39
2017-18	0.32	.004	.028	2013-14	292.7	145.73	328.93

Source: Annual Reports, Insurance Regulatory and Development Authority (IRDA)

With respect to the insurance office branches, only 15 branches were set up by the insurance companies, both in private and public sector. Only a single branch is found in rural areas and the rest are situated in the urban areas by the end of FY 2016-17. Out of 16 districts, only 8 districts have insurance offices. This is also a sorry state of affairs with respect to the insurance outreach in the state. The commercial banks, during the present govt. regimes, had penetrate into the insurance sectors by providing various insurance coverages to the savings accounts holders under the low-premium insurance schemes like Pradhan Mantri Suraksha Bima Yojana (Accidental death and disability cover of Rs 2 lakh with a premium of Rs 12 per year), and Pradhan Mantri Jeevan Jyoti Bima Yojana (insurance cover of Rs 2 lakh to dependents in the event of the policyholder's death for a premium is Rs 330 a year). The table 9 revealed that 68.12% and 76.42% of the insured populations are from urban centres with respect to the PMSBY and PMJJBY respectively.

Table No 9: PMSBY and PMJJBY as on 31.03.2018 in Arunachal Pradesh

Area	Pradhan Mantri Suraksha Bima Yojana			Pradhan Mantri Jeevan Jyoti Bima Yojana		
	Enrolments	Claim Settlement Ratio	Percentage to eligible Population	Enrolments	Claim Settlement Ratio	Percentage to eligible Population
Total	33,871	94.67%	5.87%	54,557	N/A	8.28%
Urban	68.12%	-	-	76.42%	-	-
Rural	31.88%	-	-	23.58%	-	-

Sources: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=177951>

Post Office Coverage:

In Arunachal Pradesh, a total of 302 post office are present at the end of FY 2017-18 with a coverage of 5132 persons per branch and each PO branch served 277.29 Sqr. Km. In last 3 FYs only one new post office was set up but major upgradations were taken place with respect to connectivity and banking activities. 49 Post Offices were switched over to Core Insurance Solution (CIS-PLI). One ATM has been installed in the state in 2017-18 at Itanagar. One Post Offices have been modernized under “Look & Feel” and 08 Post Offices have been modernized /upkeep under “Project Arrow” activities. With respect to rural-urban divergence, the ratio of branches is 0.90:1.00 (143 to 159) and with respect to coverage one rural branch covers 3430 persons at 366.51 sqr. kms. whereas in urban areas the people served by one branch is 2018 and 102.12 sqr. Km.

Table No 10: Post Office Coverage as on 31.03.2018 in Arunachal Pradesh

FY	Number of PO			Average persons served per PO			Average area served per PO (in sq. km)		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
2014-15	301	159	142	4937	1523	3467	278.22	102.12	378.23
2015-16	302	159	143	5036	1612	3317	277.29	102.12	366.51
2016-17	302	159	143	5112	1898	3328	277.29	102.12	366.51
2017-18	302	159	143	5132	2018	3430	277.29	102.12	366.51

Sources: Annual Reports, Indian Post for different FYs

MFIs, SHGs – Bank Linkage:

The deposit and credit linkage program of NABARD has had proven success throughout the country. However,

in the NER except for a few States like Assam and Manipur, the program has not taken off. The SHGs and MFIs are now in a nascent stage and wherever the SHGs are being formed either they are defunct or closed.

Banking & Physical Infrastructure (Rural Vs. Urban):

Financial Institutions and banks need to create physical infrastructure which other financial services can ride on in order to build scale towards inclusion. Modern infrastructure minimizes risks, increases speed and supports compliance efforts, altogether compressing the cost of sending a cross-border remittance payment. Most of the banks have invested in core banking systems for improving the access of banking services to the customers. In the era of digital technology, banks are focusing on digital banking and self-service channels to reduce the cost of operations which includes internet banking, mobile banking etc. The transformation of consumer banking is driven by the convergence of banking services, telecommunications services as well as Web portals. Therefore, technology and infrastructure have great role to play in achieving financial inclusion.

State faces challenges in infrastructure and poor access to remote mountainous areas was leading to fall in inclusive developments. The State, being one of the Special Category States, is solely dependent on Central Assistance for Plan investment because of poor resource base. Unlike other States of the country, Arunachal Pradesh is not fortunate enough to inherit some semblance of infrastructure at the time of independence. Over the last four decades of planning process in Arunachal Pradesh, the State has intensified its efforts for its economic development. Arunachal Pradesh has not inherited any infrastructure on which to build upon further. The development process in the State, had, thus to be started from the scratch. In fact, development efforts gained momentum only from Sixth Five Year Plan. This has left the State far below all India average of development. The backlog of basic minimum services requires to be reviewed and the gaps in the infrastructure are to be filled urgently and effectively. Apart from basic infrastructure facilities, development of institutional infrastructure like financial institutions and other supporting services such as marketing, godown etc. also needs to be laid special emphasis.

Arunachal Pradesh is not fortunate enough to inherit infrastructure from the British Raj. At the time of independence there were less than 100 km. of dirt roads. At the time of attaining statehood in 1987, the total road length was only 3419 km. and today it stands at 18,000 km., a quantum jumps in progress. The NH-52 and NH-52A have a total length of 380 km. in the State. The State is still quite deficient due to inadequate capacity, poor geometric, poor riding quality, weak and distressed bridges and presence of a number of semi-permanent timber bridges and lack of wayside amenities. The present road density of Arunachal Pradesh is 21.9 km. per 100 sq. km. against all India average of 73 Km. per 100 Sq. Km. Out of 3863 villages, only 1743 villages are connected by road. Lateral road link is absent. There is urgent need to open up the potential and backward areas of the State through road connectivity for rapid economic development. Transport service has now been risen to 238 buses operating on 155 routes connecting all the motorable remotest Administrative Centres of the State even though margin of profit revenue is low and operational cost is high. Arunachal Pradesh is lagging behind in the field of higher education in comparison with the country and the North-Eastern Region. Non-availability of proper infrastructural facilities in the colleges and university due to shortage of fund are the main problems for achieving the goal of higher education. Inhospitable terrain and low population density make rendering of health services rather difficult in Arunachal Pradesh. Though there has been a perceptible improvement in the public health facilities, most of the health care facilities are not well equipped with basic infrastructure like buildings, trained man power, equipment and lifesaving drugs. Notwithstanding such enormity of the problem of physical accessibility, the sustained efforts made over the last successive plan periods, the Department of Health & Family Welfare with its institutional network extends health care facilities through 03 nos. General Hospitals, 12 nos. District Hospitals, 42 nos. Community Health Centres, 108 nos. i.e., Primary Health Centres, 557 nos. Sub-Centres, 37 nos. Homeopathy Dispensaries, 2 nos. Ayurvedic Dispensary, 39 nos. Dental Unit, 4 nos. Hansen Disease Sanatoriums. There is no referral hospital in the State. With these bottlenecks in basic infrastructure, the rural areas lag far behind the urban areas with respect to banking infrastructure which is a major cause for lesser banking penetration in the state of Arunachal Pradesh.

An automated teller machine (ATM) is one of the most used electronic telecommunications device that enables customers of financial institutions to perform financial transactions, such as cash withdrawals, deposits, transfer funds, or obtaining account information, at any time and without interaction with bankers. Out of 232 ATM installed in the state, 190 ATMs are installed in urban and only 18.10 % ATMs are installed in rural area. In Papumpare district 90 ATMs booth are installed and most of them are in awful conditions. In Lohit 28 ATMs are installed but for many having ATMs is still distant dreams. Only the lone postal department ATM was set up at Itanagar in the FY 2017-18.

Table No 11: No. of ATMs provided by various banks

Bank	2013-14	2015-16	2016-17		
			Total	Rural	Urban
CBs	106	186	228	40	188
APRB	0	0	2	1	1
APSCB	0	0	2	1	1
Total	106	186	232	42	190

Source: RBI Reports

Information pertaining to number of Functioning Offices of commercial banks is presented in table 12. The number of functioning offices is gradually increasing and has reached 157 in 2017 from 143 in 2014 which is 9.7 percent increase. Among the total number of bank offices, the number of offices situated in the urban area is more i.e., 84 numbers of offices (53.5%). With respect to the total number of insurance offices in the state, out 15 insurance offices only one office is established in rural area.

Table No 12: Number of Functioning Offices of Commercial Banks (R- Rural, U- Urban, T- Total)

Institute/Areas	Dec 2017			Dec 2016			Dec 2015			Dec 2014		
	R	U	T	R	U	T	R	U	T	R	U	T
Bank	73	84	157	71	80	151	69	78	147	69	74	143
	46.5	53.5	100	47.0	53.0	100	46.9	53.1	100	48.3	51.7	100
Insurance	1	14	15	0	14	14	0	15	15	0	12	12
	6.7	93.3	100	0.0	100	100	0.0	100	100	0.0	100	100

Source: IRDA Handbook on Indian Insurance Statistics 2017-18 and RBI Reports

Comparing the bank officials working in the rural and urban areas of the state, only 701 officials are working in rural areas out of 1912 officials working at the end of FY 2017-18 which is only 36.66% of the total. Though the number of staff nearly doubled in the rural areas, thanks to SBI as it open around 54 branches in rural areas, in last 6 FYs, but still a lot to be done as 67% of the population of the state are leaving in rural areas. A total of 1174 insurance agents are working in Arunachal Pradesh out of which only 2.39 percent insurance agents are working in rural areas and 97.61 percent are working in urban areas. Many agents and bank staff feel hesitate to work in rural areas, because of extra cost involved in transportation, accommodation etc. The other reason is the traditional mindset that exists among the customers towards insurance company. Trust being the major factor has not paved way for private insurance companies as many got betrayed from fraud agents in the past. Thus, the penetration level of the insurance players in the rural market is not commendable.

Table No 13: Officials (Bank & Insurance) in Arunachal Pradesh

FYs	Banks Staff					Insurance Agents				
	Rural		Urban		Total	Rural		Urban		Total
	No.	%	No.	%		No.	%	No.	%	
12-13	312	25.83	896	74.17	1208	37	1.84	1976	98.16	2013
13-14	487	39.66	741	60.34	1228	41	2.51	1590	97.49	1631
14-15	612	42.27	836	57.73	1448	29	2.38	1188	97.62	1217
15-16	722	43.03	956	56.97	1678	29	2.42	1168	97.58	1197
16-17	701	37.25	1181	62.75	1882	18	1.93	917	98.07	935
17-18	701	36.66	1211	63.34	1912	28	2.39	1146	97.61	1174

Sources: RBI Annual Reports 2009-10 to 2017-18 and IRDA Handbook on Indian Insurance Statistics 2017-18

Divergence in Banking Transaction Cost (Rural Vs. Urban):

For any transaction at a bank branch a county-wise average cost of Rs 37 is incurred in FY 2017-18 which drops to around Rs 17 at an ATM and can be drastically drop to Rs 1.50 for an online transaction and to around 30-50 paisa per transaction for the mobile banking. These include high internet and mobile penetration and an ecommerce system that is taking off, along with a relatively unbanked population and supporting infrastructure mechanisms like the Aadhar card. Access to credit for individuals and for businesses is severely constrained in much of the developing world. Weak legal and regulatory frameworks for lending – combined with the lack of predictability for lenders, the inability to leverage productive assets, and the absence of credit information – creates a lending environment that is unfriendly to Micro, Small and Medium Enterprises (MSMEs) and individuals. “Credit infrastructure” refers to the set of laws and institutions that enables efficient and effective access to finance, stability and socially responsible economic growth¹. The cost of services charged by various banks and financial institutions for the banking transaction for urban and rural customers are not varied but depends on the banking rules and regulations of each banks. But, the cost to reach the banks and financial institutions differs for the customers of the urban and rural areas. The cost of reaching banking institutions is higher for the rural customers as the coverage is lesser in rural areas.

TESTING OF HYPOTHESIS:

From the above analysis and observations made by researchers, it is found that there is a wide variation found with respect to different variables of the supply side of financial inclusion with respect to rural and urban areas in Arunachal Pradesh, thus rejecting the null hypothesis: H₀: There is no divergence present in rural and urban areas of Arunachal Pradesh with respect to the supply side variables of financial inclusion.

CONCLUSION:

Uneven distribution of financial institution and their branches leading to financial exclusion in the state of Arunachal Pradesh and thereby creates enormous problem between both ends. It is observed that in one hand service provider (bankers) were not fully aware of geographical and demographic status of the area and on the other hand, public didn't bother to approached them regarding opening of bank branches. This gap between bankers and public need to understand and cognitive issues would require adequate placement of competent stakeholders though it may business correspondence, customer service point and all other types of organisations or individuals in the system. Sustainability of banking can be most easily gauged by their continuance while delivering social and financial value to the public. Increase in financial institution will induce the propensity to save in the way which will increase ability to deposit and use the finance judiciously and in time. Instead of linking insurance with income level of the individual, they need to develop policies in such a way that suit the rural poor and their needs. Trust plays very vital role between public and insurance companies. They need to build this through their loyal services. Therefore, it calls for a collaborative action from government, public, insurance companies and most importantly the bankers of all over state towards collective financial education and necessitates to be informed about financial choices. In the process, the formal financial system would become a more stable amphitheatre and can much less vulnerable to financial crisis.

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¹ <http://www.worldbank.org/en/topic/creditinfrastructure>

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