

## **MEASURING PENETRATION AND ACTUAL USAGE OF FINANCIAL SERVICES IN MANIPUR**

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### **Abstract**

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***Keywords:***

Financial Services;  
Inclusive;  
Penetration;  
Usage.

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The main objective of this paper was to measure the penetration of selected financial services and their awareness level by the Manipur state beneficiaries. To measure this, researcher does survey using a structures questionnaire to 600 beneficiaries from six districts of the Manipur state. The collected data was analyzed by using percentage and chart. The study found that the penetration of selected financial services is increasing rapidly but regional disparity still remain between the valley and hilly regions as the number of people served by a branch is low. The respondents' awareness level and their actual usage of the available financial products and services are showing very low. Even though the level of penetration of financial services has increased rapidly, the beneficiaries are still popularly adopting the informal sources of credit and saving behavior in the state.

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## 1. Introduction

In the past many years, Indian Financial sector has endured significant pressures in modification of landscape in order to improve their clients' services level. And today's it is fairly mature in terms of supply, product and range. This makes a significant impact on the service sector. But from many studies found that the challenges still linger in the outreach to the rural and underdeveloped state. To overcome this issue, the government and Reserve Bank of India (RBI) have been pushing the concept of 'Financial Inclusion' since many years. Even they had permitted commercial banks to make use of the services of non-governmental organizations (NGOs), micro-finance institutions, and other organizations like intermediaries for providing financial and banking services. This help to enhance the availability of institutional credit to the poor, who were so far excluded from the institutional credit system. And the number of transaction of the Indian Insurance Companies grew up as Indian insurance business was also managed by private companies.

## 2. Review of Literature

The strong and healthy functioning of the financial system is the basic foundation for economic expansion and development of any region. In the absence of inclusive financial system, underprivileged individuals, households and enterprises have to depend on their own savings and earnings for their urgent needs such as medical expenses, children's education and to cater to growth opportunities for business. It is evidenced from the many studies conducted by Morduch (1995); Ghosh, Mookheerjee & Ray (1999); Morduch & Haley (2002); Khandker (2001). Inclusive finance includes safe savings, loans to poor and low-income households and enterprises, insurance services which help people to enhance incomes, acquire capital, manage risk, and come out of poverty. Access to financial services contributes to higher production and social protection (Ananth and Mor, 2007). According to UNDP (2007), Indian poor and vulnerable are highly excluded from formal insurance. The outreach of micro insurance is around 5 million people covering only 2 percent of the poor in the country. From the report on the Committee of Financial Inclusion (2008), the north eastern regions of India have more households which are financially excluded from formal financial services. About 95.91 % of the households of NER are excluded from financial services. Among the North East, Manipur state was the worst with a credit gap of 97.2 % - 99.2 % in all the districts in Manipur (In terms

of reaching banking services, Manipur state is the least banked (Kaparna, 2011). In case of credit, overall 73% of farmer households of India have no access to formal sources of credit. About 20% of indebted marginal farmer households have access to formal sources of credit. Nearly 80% do not access credit from any source among non-cultivator households (Tanksale, 2012). With the development of new technology and services, access to financial services and delivery channels of banking have transformed from the traditional brick-and-mortar infrastructure to a system supplemented by other channels like ATM, credit/debit cards, internet banking, online money transfer, etc. Hence, access to these financial services helps people in easily transferring their money to others, to deposit, to save, to invest, and also enables improvement of customer services and their management by financial institutions (Rajendran, 2012). However, measurement of financial inclusion is very complex as it may differ based on the needs and regions. This measurement helps to know which region of the population lacks as well as uses what types of financial services. It also helps in understanding to whom and how financial services providers has to provide their services and what initiatives need to be taken for better distribution of services (Ledgerwood, et al., 2013).

### **3. Objectives of the Study**

- i) To study the extent of penetration of selected financial services in Manipur.
- ii) To compare the penetration of financial services in hilly and valley region in Manipur.
- iii) To know the level of awareness and actual usage of financial services by the beneficiaries.
- iv) To understand credit taking and saving behaviour by the people of state.

### **4. Research Method**

The study adopted descriptive and analytical in nature. To know the actual usage of selected financial services, the researcher distributed structured questionnaires to the beneficiaries' from six districts of Manipur. The selected six districts are Imphal West district, Imphal East district, Thoubal district, Bishnupur district, Chandel district and Churachandpur district. The sample size was 600 beneficiaries. Secondary data was collected from State Lead Bank Manipur reports and census of Manipur 2011. To analyses both the primary and secondary data, the researcher adopted statistical tools like frequency, percentages and chart.

## 5. Analysis and Findings

### 5.1. Penetration of Banks in Manipur

From the figure 1, it can be seen that the population per bank branch as well as the square kilometer area per bank branch declined significantly between the years 2007 to 31<sup>st</sup> March 2018. It indicates that the penetration of banks in Manipur increased rapidly as the number of scheduled commercial bank branches network expanded because of the initiative taken by the RBI and the government of India towards promoting financial inclusion.

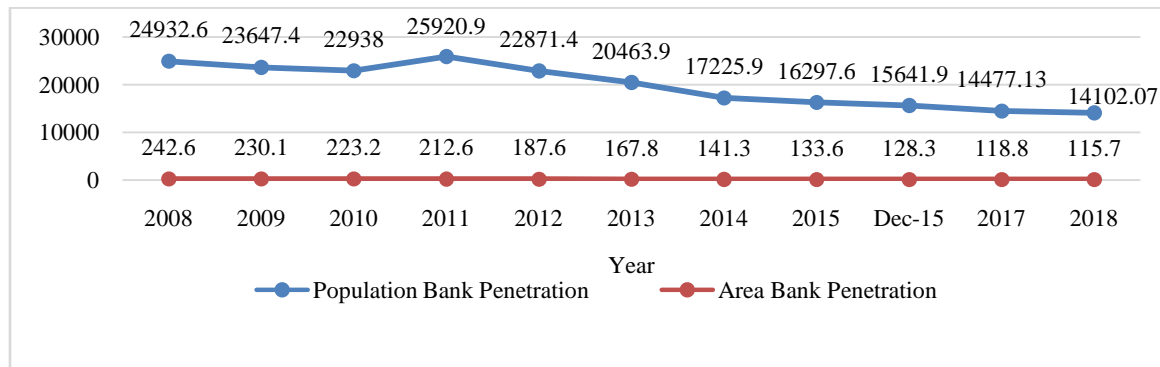


Figure 1. Penetration of Banks in Manipur

Source: Computed from SLBC Manipur reports and Manipur Census 2011, 2001

### 5.2. Penetration of Banks in Manipur

From the figure 2 it can be seen that the population per ATM installed in the state and the area square kilometer per ATM declined from the years 2007 to 31<sup>st</sup> March 2018. Hence it indicates that the penetration of ATM in the state has been increasing rapidly. This is another sign of improvement in the access to banking services.

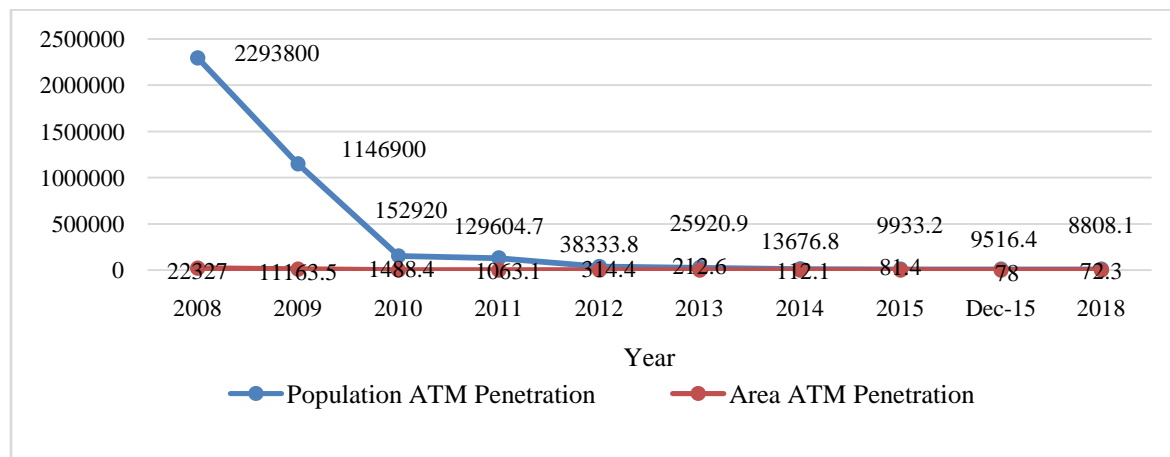


Figure 2. Penetration of ATMs in Manipur

Source: Computed from SLBC Manipur reports and Manipur Census 2011, 2001

### 5.3. Penetration of Insurance Services in Manipur

From the figure 3 it can be seen that the population per Insurance branch in the state and the square kilometer area per Insurance branch also decreased slightly. Hence the penetration of Insurance branches in the state also increased slowly.

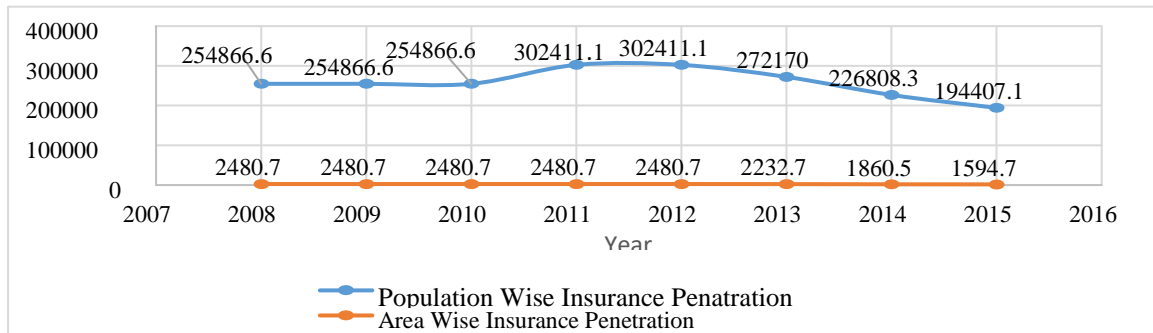


Figure 3. Penetration of Insurance Services in Manipur

Source: Computed from SLBC Manipur reports and Manipur Census 2011, 2001

### 5.4. Bank Branches in terms of Population: A Comparison of Valley and Hilly areas

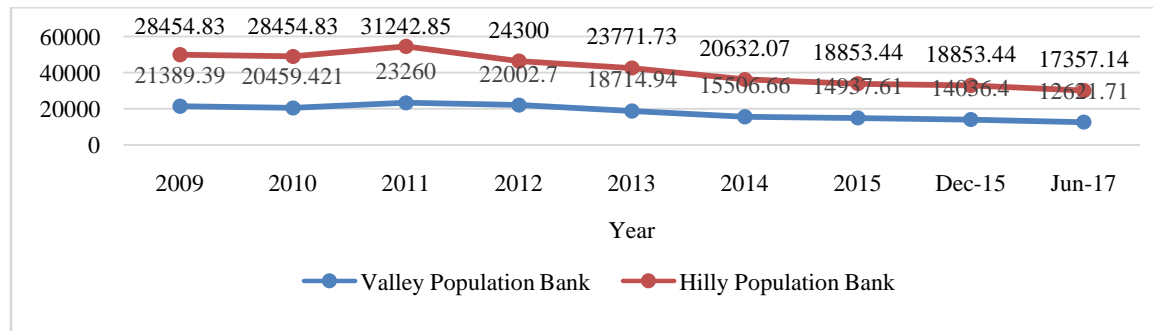


Figure 4. Bank Branches in terms of Population: A Comparison of Valley and Hilly Areas

Source: Computed from SLBC Manipur reports and Manipur Census 2011, 2001

The figure 4 represents the comparison of the penetration in the valley and hilly population per bank branch. In 2009, the number of people served by one bank branch in the hilly region was 28,454.83 of people whereas for valley region it was 21,389.39 of people. Usually hilly areas

are more difficult to reach. At June 2017, both the region's population per bank branch also decreased and their value reached 17357.14 for the hilly region and 12621.71 for valley region. So, they are having a slight difference in terms of penetration of the population per bank.

### 5.5. Bank Branches in terms of Area: A Comparison of Valley and Hilly Areas

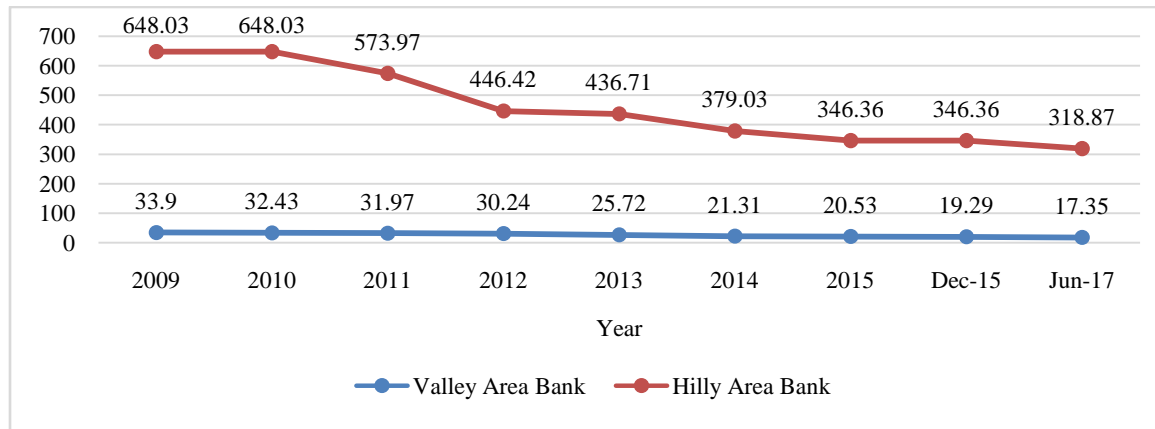


Figure 5. *Bank Branches in terms of Area: A Comparison of Valley and Hilly Areas*

Source: Computed from SLBC Manipur report and Manipur Census 2011, 2001

When we see the pattern of area per bank in both regions for the period of 2009 to June 2017, it is decreasing gradually. But the huge difference between the regions in term of the area covered by one bank branch is showed in figure 5. The valley region area per bank is only 17.35 square kilometer whereas for the hilly region it is 318.87 square kilometer in 2017. Hence the level of banks penetration is more in valley region.

### 5.6. ATMs in terms of Population: A Comparison of Valley and Hilly Areas

The figure 6 presents the comparison of the valley and hilly population for ATM penetration. In 2009, the average number of people served by each bank outlet in hilly region was 57552.63 and in 2018 the value decreased to 16823.08 thousand people whereas for valley region it fell from 31311.54 thousand people to 6672.95 thousand people. So, the valley region is showing fewer clients per ATM outlet and easier access.

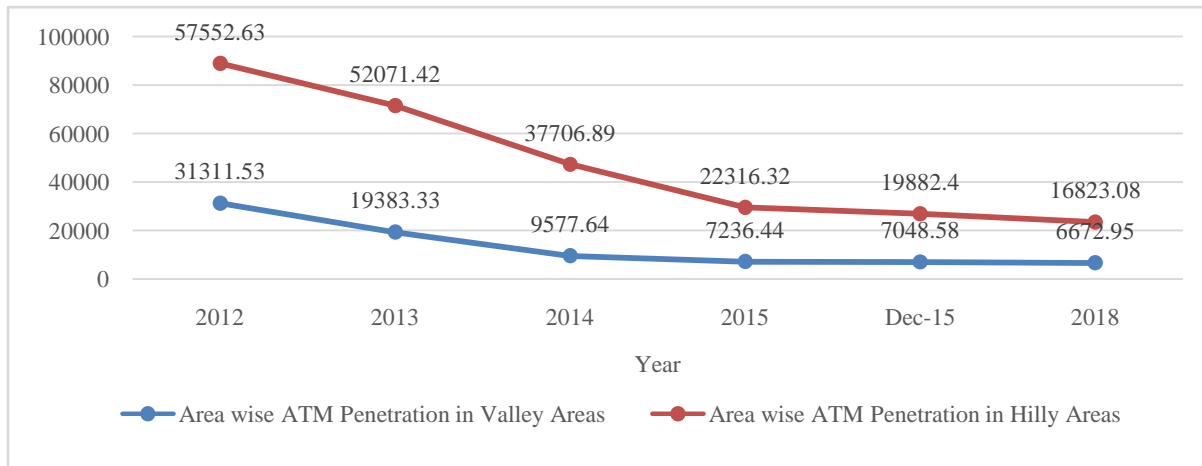


Figure 6. Penetration of ATMs in terms of Population: A Comparison of Valley and Hilly Areas

Source: Computed from SLBC Manipur report and Manipur Census 2011, 2001

### 5.7. Penetration of ATMs in terms of Area: A Comparison of Valley and Hilly Areas

From figure 7, we can figure out that the pattern of area per ATM in both regions for the period of 2009 to 2018 is decreasing significantly. But there is a huge gap between the two regions. The valley region area per ATM is only 9.17 square kilometers whereas for the hilly region it is 309.1 square kilometers in 31<sup>st</sup> March 2018. Hence the distribution of ATM network is more in valley region when compared to the hilly region. Therefore, the study indicates hilly regions are difficult to access when compared to the valley.

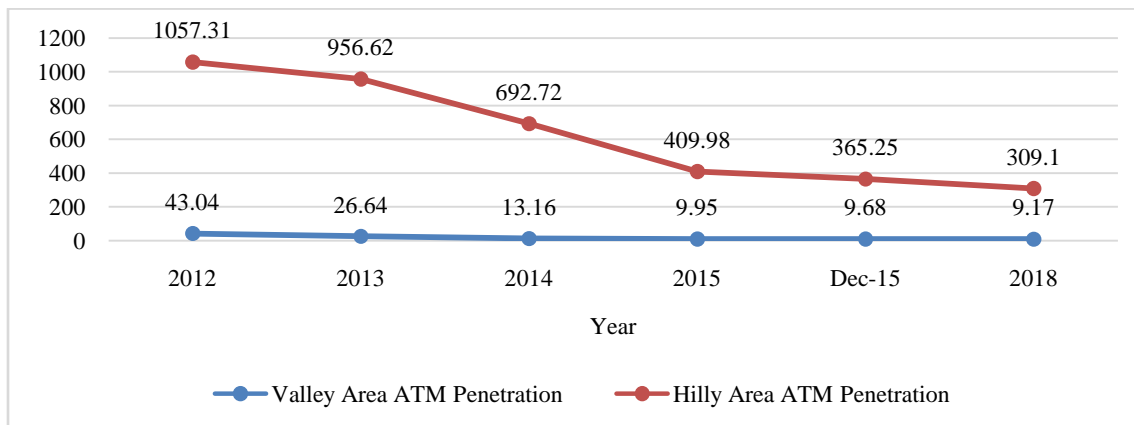


Figure 7. Penetration of ATMs in terms of Area: A Comparison of Valley and Hilly Areas

Source: Computed from SLBC Manipur report and Manipur Census 2011, 2001

### 5.8. Comparison of Insurance Services Penetration in Valley and Hilly Regions in Manipur

Most of the Insurance Companies are operating in Valley region. Only a few companies are operating in Hilly region. All branches and offices of Non –Life Insurance exist only in valley reason. In the case of Private Life Insurance Companies, only one branch is operating in the hilly region that is in Churachandpur district and remaining eight Private Life Insurance Companies (LIC) are operating in the valley. Whereas, the Public LIC has four branches in the valley and only one branch in the hilly region. And the population per Insurance branch penetration for valley region is 135685.3 thousand whereas for the hilly region, it is 546766 thousand. In area wise penetration, 186.5 area square kilometers are covered by one insurance outlet in the valley whereas; the hilly region has 10044.5 area square kilometers for one outlet. From this result, we can conclude that the clients served by one insurance outlet in the hilly region are very large when compared to the valley region. Hence, the people of the hilly region will be facing more difficulty to have access the insurance services.

Table 1. Comparison of Penetration of Insurance Companies

<b>Insurance Companies</b>	<b>Valley Region</b>	<b>Hilly Region</b>
1. Non-Life Insurance Companies	All branches and offices of Non –Life Insurance exist in valley reason	No Branches / Offices
2. Life Insurance Companies : Private	8 Branches	1 Branches (HDFC Standard Life)
3. Life Insurance Companies : Public	4 branches 12	1 branches 2
Population per Insurance Penetration :	135685.3	546766
Area per Insurance Penetration:	186.5	10044.5

Source: Computed from IRDA report as on 31<sup>st</sup> March 2015 and Manipur Census 2011

**5.9. USAGE OF FINANCIAL SERVICES** To ascertain the actual usage and awareness of financial services, the researcher used frequencies, percentages for collected primary data from beneficiaries of six districts in Manipur. And the analysis results are given below:



### 5.9.1. Awareness about Financial Institutions

Table 2 presents the awareness of respondents about institutions. 98.8 % of respondents agreed that they were aware of a bank, 67.3% know about RRB, 74% know about Insurance companies, and 54.3 % know microfinance institutions, 73.5% of respondents were aware of Cooperative bank, 71.3 % respondents were aware of NGOs, 95.8 % had awareness of Post office. But 93.2% of the respondents do not know what a brokerage firm was and 96.8% did not know about mutual fund companies. The main reason for having a high awareness of banks and PO is their relatively easy accessibility. And the reason for not being aware of the brokerage firms and mutual fund companies could be the lack of infrastructure such as roads, electricity, telecommunication and internet facilities. These factors discourage and create insecurity for many players due to their operational hurdles and hence there is less penetration of companies and their clients.

Table 2. Awareness about Financial Institutions

Financial Institutions Name	Yes	Percentage	No	Percentage
Bank	593	98.8	7	1.2
Regional Rural Bank(RRB)	404	67.3	196	32.7
Insurance companies	444	74	156	26
Microfinance Institution	326	54.3	274	45.7
Cooperative Bank	441	73.5	159	26.5
NGOs	428	71.3	172	28.7
Post office	575	95.8	25	4.2
Brokerage firm	41	6.8	559	93.2
Mutual fund companies	19	3.2	581	96.8

### 5.9.2. Awareness about Financial Products and Services

Table 3. Awareness about Financial Products and Services

Financial Products	Heard		Not Heard		Use	
	Yes	Percentage	No	Percentage	Yes	Percentage
Mobile Banking	152	25.3	448	74.7	57	8.7
Internet Banking	152	25.3	448	74.7	38	6.3
ATM	472	78.7	128	21.3	207	34.5
Debit Card	207	34.5	393	65.5	119	19.8
Credit Card	186	31	414	69	14	2.3
Current account	232	38.7	368	61.3	18	3
Saving account	266	44.3	334	55.7	166	27.7
Fixed Deposit	409	68.2	191	31.8	24	4

Microfinance	326	54.3	274	45.7	59	9.8
Personal Loan	353	58.8	247	41.2	16	2.7
Bank Loan	512	85.3	88	14.7	31	5.2
Insurance	401	66.8	199	33.2	51	8.5
Mortgage loan	55	9.2	545	90.8	0	0
Mutual Fund	23	3.8	577	96.2	0	0
KCC	151	25.2	449	74.8	19	3.2
GCC	64	10.7	536	89.3	2	0.3
No frill account	95	15.8	505	84.2	22	3.7
Hire purchasing	115	19.2	485	80.8	3	0.5
Leasing	82	13.7	518	86.3	1	0.2

The table 3 explains the awareness of respondents on various financial products and services. 74.7 % respondents stated that they did not know what was mobile banking and internet banking. Most of the respondents said that they had just heard about it during the researcher's interview. 78.7% respondents were aware of ATMs, 65.5% respondents do not know what a debit card was, 69% of the respondents were not aware of a credit card. 61.3 % and 55.7 % of respondents respectively did not know what current account and a savings account was. The researcher found the main reason for high ignorance of debit card, credit card, current account and saving account to be due to the lack of financial literacy. Most of the people of the state did not know the difference between debit card and credit card, and between current and savings account. But they only know and use them by name of ATM card and bank account. 68.2%% respondent were aware of fixed deposits. But 54.3% know microfinance loans, 58.8% know what is a personal loan, 85.3% aware how to get a bank loan, 66.8% respondents were aware of Insurance. 90.8% do not know what mortgage loan is, 96.2% are not even aware of mutual fund names. Most surprisingly, 74.8% respondents were not aware of KCC, 89.3% respondents were not aware of GCC, 84.2% were not aware of no frills account. 80.8% were not aware of hire purchasing and 86.3% of respondents were not aware of leading. But the actual reason for this is that the people are not familiar with financial products and their service names. Hence, it is observed from the above frequency analysis that the financial literacy is poor in the state. There is a need for programmes that upgrade and improve the financial literacy.

### 5.9.3. District wise Distribution of Types of Account

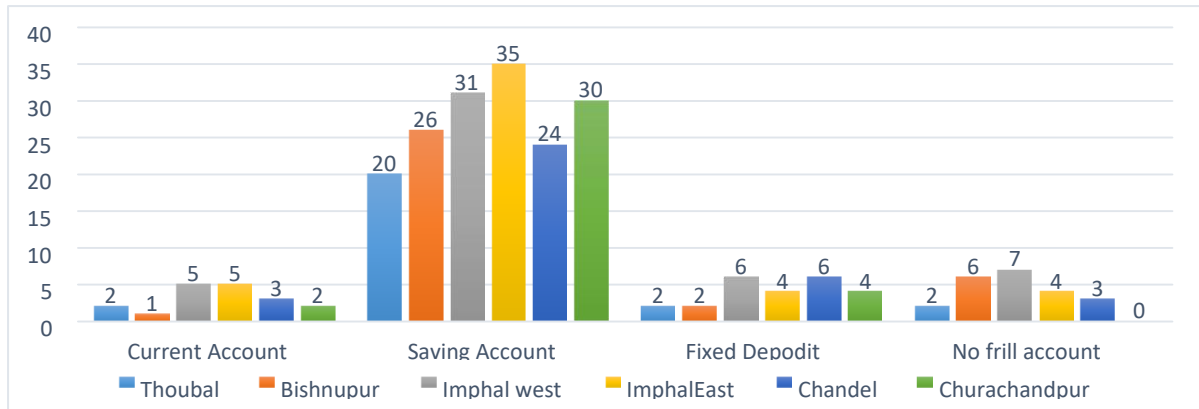


Figure 8. District wise Distribution of Types of Account

The figure 8 shows that most of the respondents of six districts are using a savings account. Only a few people from each district were using current accounts, fixed deposit accounts, and no frills accounts. District wise, respondents from Imphal East were accessing more saving accounts compared to other districts.

#### 5.9.4. Usage of Different Types of Loan

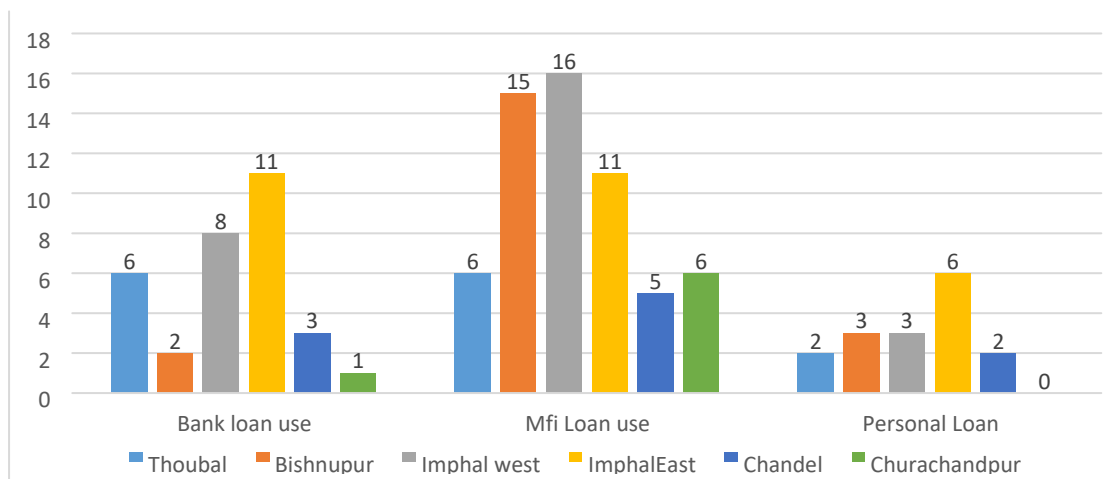


Figure 9. Usage of Different Types of Loan

When we see the pattern of accessing loans, all the districts are accessing most of the loans from microfinance institutions compared to the bank loans. Imphal West district and Bishnupur district are the districts which get most loans from microfinance institution whereas Chandel

district takes fewer loans from MFI. Bishnupur district uses more bank loans compared to other five districts (figure 9).

### 5.9.5. District wise Number of Technological Platforms, Products and Services in Usage

Figure 10 indicates the district wise usage of new and innovative financial products and services in the state. Here, the ATM is the most preferred service in all the districts compared to the other services available, followed by debit card and Mobile banking services.

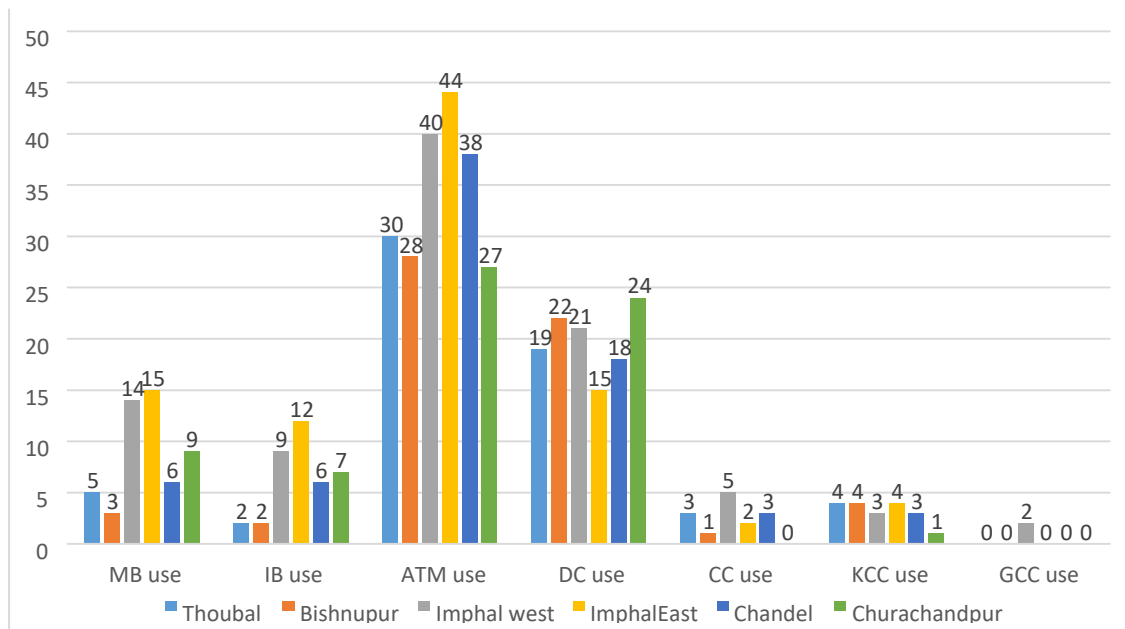


Figure 10. District wise Number of Technological Platforms, Products and Services in Usage

### 5.9.6. District wise Usage of Bank Account

The figure 11 shows the district wise distribution of respondents having bank accounts in the six districts of the state. This pie chart shows that Imphal West district has the highest bank accounts with 23%, followed by Thoubal district at 18% and Imphal East approximately 18%, next with Bishnupur district, followed by Churachandpur district. The Chandel district is having the lowest number of bank accounts with only 12%.

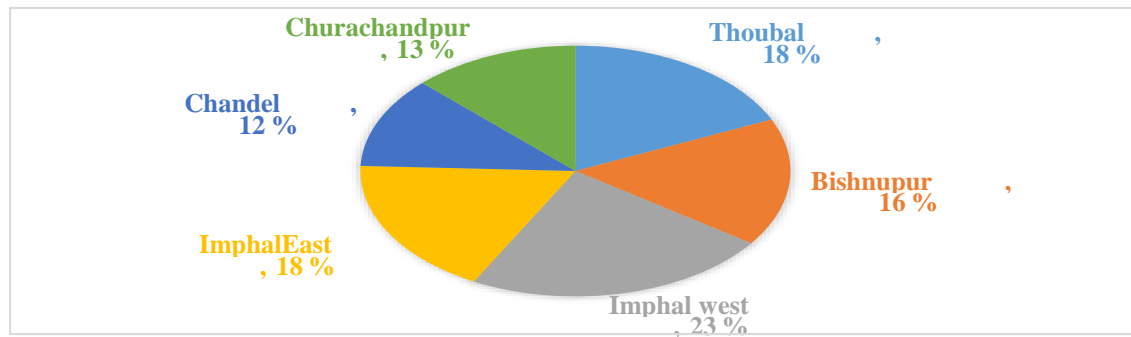


Figure 11. District wise Usage of Bank Account

### 5.9.7. District wise Purchase of Insurance

The respondents of Imphal West district are buying more insurance policies compared to the other districts i.e. 27%. The second district buying most insurance policies is Imphal East district with 21%. And the least number of the respondents who use insurance policies are shown as Chandel district and Bishnupur district in figure 12.

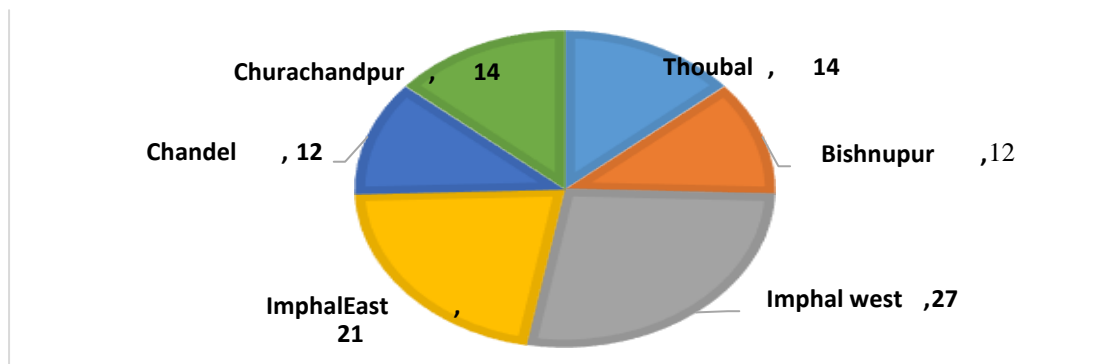
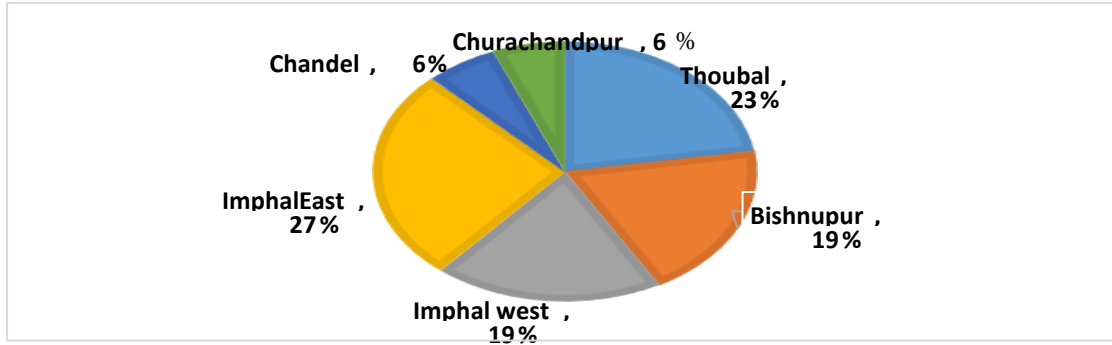


Figure 12. District wise Purchase of Insurance

### 5.9.8. SHGs Membership

From the figure 13, it is seen that 27% of Imphal East district respondents have SHGs membership, 23% in Thoubal district, followed by Imphal West district, Bishnupur district. And the Chandel district and Churandpur district are very much active in SHGs.

Figure 13. *SHGs Membership*

### 5.10. Purpose of and Sources from which Credit is taken

From the table 4, it is found that out of 600 beneficiaries' survey, a very small percentage of the respondents are using the credit from formal sources. Only 6.5% of the respondents borrowed from banks mostly for business purposes. 15.5% of respondents access credit from MFI for business purposes. The Cooperative banks are used by the people to access credit especially for business (2.8%), agriculture and allied activities (1.5%). Whereas for informal credit, 12% of the respondents answered that they used informal credit for their urgent needs, 2.3% of the respondents used them for educational expenses and 2.2% for medical expenses and 2.2% for others purposes. Overall, 21.2% of the respondents access credit from informal sources. During the survey, the researcher enquired why the people took loan from an informal or formal source of credit. Most of the respondents who used informal sources said that credit services are not provided by most of the banks (either public banks or private banks or local banks) to the needy people in the state. It is because of fear of non- repayment of loans from the borrowers. They give loans to only those who have collateral security like government employees. In this case, low income people and/ or people with no collateral or fewer assets have to take help from informal sources like friends and relatives.

Table 4. Credit taken by Beneficiaries from Different Source

Credit	Yes	%	No	%	Selected purpose for credit
All	253	42.2	347	57.8	
Bank	39	6.5	561	93.5	Business 3.5%, Others purpose

MFI	95	15.8	505	84.2	Business 15.2%
Cooperative	34	5.7	566	94.3	Business 2.8%, Agriculture and
Informal Sources	127	21.2	473	78.8	Urgent Needs 12%, Education purpose 2.3%, medical expenses

### 5.11. Household Savings Behavior in the State of Manipur

From the table 5 it can be seen that the people of the state adopt more of informal financial saving practices than formal practices. 24.2 % of the households are saving their excess money either by purchasing land or in form of cash at home or 'Marup' which is one form of Rotating, Saving and Credit Institution and others forms. Whereas only 9.7% of the respondents households save their excess money at formal saving banks, MFI's, Cooperative Banks or the Post office. The main reason for saving in an informal way is easy access to the amount when needed and the amount invested in an informal way creates more returns compared to formal banks.

Table 5. Household Savings Behaviour in the State of Manipur

Financial Sources	Yes	Percentage	No	Percentage
<b>Formal Sources</b>				
Bank	46	7.7	55	92.3
MFI	8	3.3	59	98.7
Cooperative	3	0.5	59	99.5
Post office	9	1.5	59	98.5
Formal total consider only one from	58	9.7	54	90.3
<b>Informal Sources</b>			2	
Lending to people with interest	19	3.2	59	96.8
Purchase Land	17	2.8	58	97.2
Cash at home	68	11.3	53	88.7
Marup	81	13.5	51	86.5
Others	52	8.7	54	91.3
Informal total	145	24.2	45	75.8

## 6. Conclusion

It can be concluded that the penetration of selected financial services is increasing rapidly. But the results show regional disparity between the valley and hilly regions since the number of people covered or served by a single financial service branch is very low compared to the hilly region. Even though the respondents are aware of the available financial products and services,

the actual usage is very less. However, compared to the other financial products and services available, usage of ATM, debit card and savings account by the respondents is highest. Majority of the respondents who took loan or credit from the bank and MFI (formal channels) were business men. Out of the 42. 2% of respondents who took credit from any of the sources (either formal or informal channel) in the study, nearly half (21.2%) of the respondents took it from the informal source. Though the penetration of selected financial services is increasing rapidly, the people of the state are still popularly adopting the informal sources of credit and saving behavior.

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