International Journal Advanced Research Publications

A STUDY ON THE ROLE OF FINANCIAL SERVICES IN MODERN ECONOMIC GROWTH WITH SPECIAL REFERENCE TO COIMBATORE DISTRICT

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DOI: https://doi-doi.org/101555/ijarp.8095

ABSTRACT

This study analyzes the pivotal role played by the Financial Services sector—comprising Banking, Insurance, and Capital Markets—in driving the economic growth of the Coimbatore region. A robust financial system is the backbone of any modern economy, facilitating capital formation, risk management, and the efficient allocation of resources. The study adopts a descriptive research design based on primary data collected from 125 respondents, ranging from MSME entrepreneurs to salaried investors. The analysis focuses on the *accessibility of credit*, *investment habits*, and the *impact of digitization* on business turnover. The findings reveal that while the banking sector remains the primary source of capital for industrial growth, there is a significant shift towards capital market investments among the younger workforce. The paper concludes that bridging the credit gap for small enterprises and improving financial literacy are essential to accelerating regional economic development.

KEYWORDS: Capital Formation, Financial Inclusion, MSME Credit, Investment Banking, Economic Development.

INTRODUCTION

The economic development of a nation is intricately linked to the efficiency of its financial system. Financial services act as the intermediary that channels savings from households into productive investments for industries. In a dynamic industrial hub like Coimbatore, the

financial services sector is not just about safeguarding money; it is about fueling growth.

Modern economic growth is driven by three pillars: **Banking (Credit)**, **Insurance (Risk Transfer)**, and **Capital Markets (Wealth Creation)**. From providing working capital to textile mills to offering venture funding for tech startups, financial institutions in Coimbatore are evolving. The integration of technology (Fintech) has further accelerated this process, reducing the cost of transactions and bringing the unbanked population into the formal economy. This study seeks to quantify how these services directly contribute to the prosperity of individuals and the expansion of local businesses.

OBJECTIVES OF THE STUDY

● To assess the role of banking and non-banking financial institutions (NBFCs) in providing credit to Coimbatore's MSME sector.

● To analyse the investment behaviour of individuals and its contribution to capital formation.

● To examine the impact of digital financial services on the operational efficiency and turnover of local businesses.

STATEMENT OF THE PROBLEM

While the financial services sector in Coimbatore has witnessed robust growth, significant structural bottlenecks remain that hinder its full potential as an economic catalyst. The primary problem lies in the **'Credit Gap'** faced by MSMEs; despite being the backbone of the local economy, many small enterprises struggle to access formal credit due to rigid collateral requirements and high interest rates, forcing them towards unregulated money lenders.

Secondly, there is a disconnect between **Savings and Capital Formation**. Although the savings rate in the region is high, a substantial portion of household wealth remains locked in "dead assets" like physical gold and real estate, rather than circulating in the economy through productive financial instruments like mutual funds or bonds. This behaviour restricts the availability of low-cost capital for industrial expansion.

Furthermore, the rapid digitization of financial services has created a **'Digital Divide.'** While the younger demographic adapts quickly, a significant portion of the traditional business community faces challenges in navigating complex digital compliance and investment platforms. This study seeks to investigate these specific friction points—accessibility, literacy, and utilization—that prevent the financial system from operating at optimal

efficiency.

SCOPE OF THE STUDY

The study provides a comprehensive analysis of the financial ecosystem within the **Corporation limits of Coimbatore City**. It encompasses three distinct dimensions:

1. Functional Scope (The Three Pillars)

● **Banking Services:** The study evaluates the accessibility of working capital loans, overdraft facilities, and the adoption of digital banking (Net Banking/UPI) among businesses. It covers Public Sector Banks, Private Banks, and NBFCs.

● **Investment Services:** It analyses capital formation trends, specifically the shift from traditional savings (FDs, Gold) to modern financial assets like **Mutual Funds, SIPs, and Direct Equity** participation.

● **Insurance Services:** It examines the penetration of **Life Insurance** (as a savings tool) and **General Insurance** (Health, Fire, and Marine) as essential risk management mechanisms for economic stability.

2. Respondent Scope

The study targets two primary economic agents:

● **MSME Entrepreneurs:** To understand credit availability and business growth.

● **Salaried Individuals & Investors:** To understand savings patterns and wealth creation.

3. Analytical Scope

The study is limited to analysing the **"Perceived Impact"** of these services on economic growth—measured through variables like business turnover increase, savings growth rate, and ease of doing business—rather than a macroeconomic audit of the region.

LIMITATIONS OF THE STUDY

● The study is restricted to respondents residing in Coimbatore city and may not reflect rural financial behaviour.

● Financial data is sensitive; respondents were sometimes hesitant to disclose exact loan amounts or investment portfolios.

● The study focuses on the *perception* of growth and stability rather than auditing actual financial statements.

RESEARCH METHODOLOGY

The study adopts a **Descriptive Research Design**.

● **Period of Study:** Three months.

- **Area of Study:** Coimbatore City.

- **Population:** Entrepreneurs, Salaried Employees, and Investors.

- **Sample Size:** 125 respondents.

- **Sampling Technique: Convenience Sampling**.

- **Data Collection:**

○ **Primary Data:** Structured questionnaire.

○ **Secondary Data:** RBI Bulletins, SEBI Reports, and Industrial Outlook Surveys.

STATISTICAL TOOLS USED

1. Percentage Analysis

2. Chi-Square Test

3. Correlation Analysis

PERCENTAGE ANALYSIS

Table 1: Consolidated Percentage Analysis of Respondents. (25 Questions)

S.No	Particulars	Category	Percentage
1	**Occupation**	Business Owner / MSME	40.0
		Salaried Employee	36.0
		Professional (CA/Doctor)	16.0
		Retired / Student	8.0
2	**Age Group**	25 – 35 Years	44.0
		36 – 50 Years	32.0
		Above 50 Years	24.0
3	**Annual Income**	₹3 Lakhs – ₹5 Lakhs	36.0
		₹5 Lakhs – ₹10 Lakhs	40.0
		> ₹10 Lakhs	24.0
4	**Financial Literacy Level**	High (Tracks Markets)	28.0
		Moderate (Knows Basics)	52.0
		Low (Relies on Agents)	20.0
5	**Primary Financial Goal**	Business Expansion	32.0
		Wealth Creation (Long term)	40.0
		Emergency Security	28.0
6	**Primary Source of Capital**	Public Sector Banks	44.0
		Private Banks / NBFCs	36.0
		Informal Lenders / Family	20.0
7	**Ease of Obtaining Credit**	Very Difficult (Paperwork)	48.0
		Moderate	32.0
		Easy / Instant	20.0
8	**Purpose of Recent Loan**	Working Capital / Business	40.0
		Housing / Asset Purchase	36.0
		Personal / Emergency	24.0
9	**Interest Rate Perception**	High / Burdensome	56.0
		Reasonable	36.0
		Low	8.0
10	**Collateral Issues**	Major Hurdle for Loans	60.0

		Have Sufficient Collateral	28.0
		Not Applicable	12.0
11	**Digital Banking Usage**	Primary Mode of Transaction	72.0
		Secondary Mode	20.0
		Rarely Use	8.0
12	**% of Income Saved/Invested**	Less than 10%	24.0
		10% – 20%	48.0
		More than 20%	28.0
13	**Preferred Investment Avenue**	Mutual Funds / SIPs	36.0
		Bank FDs / RD	32.0
		Gold / Real Estate	24.0
		Stock Market (Direct)	8.0
14	**Awareness of Compounding**	Fully Aware	40.0
		Vaguely Aware	36.0
		Not Aware	24.0
15	**Risk Appetite**	Conservative (Safety First)	52.0
		Moderate (Balanced)	32.0
		Aggressive (High Growth)	16.0
16	**Insurance Coverage**	Life + Health Insurance	44.0
		Only Life Insurance	36.0
		No Insurance	20.0
17	**Retirement Planning**	Started Investing Early	32.0
		Plan to Start Later	48.0
		Rely on PF/Pension only	20.0
18	**Impact of Credit on Turnover**	Increased Turnover >20%	56.0
		Marginal Impact	28.0
		No Impact / Debt Trap	16.0
19	**Role of Digital Payments**	Improved Cash Flow Speed	68.0
		Reduced Cost of Ops	20.0
		No Significant Change	12.0
20	**Professional Advice Usage**	Uses Financial Advisor	24.0
		Relies on Friends/Family	48.0
		Self-Research	28.0
21	**Barrier to Business Growth**	Lack of Funds/Capital	44.0
		Market Competition	32.0
		Labor/Regulatory Issues	24.0
22	**Trust in Financial System**	High Trust	52.0
		Moderate Trust	36.0
		Low Trust	12.0
23	**View on GST/Formalization**	Helped Business Grow	40.0
		Increased Compliance Burden	44.0
		Neutral	16.0
24	**Future Investment Outlook**	Will Increase Investment	64.0
		Maintain Status Quo	28.0
		Will Reduce Investment	8.0
25	**Overall Satisfaction**	Satisfied with Services	60.0
		Neutral	28.0
		Dissatisfied	12.0

CHI-SQUARE TEST

To examine the relationship between **Age Group** and **Investment Risk Appetite**.

- **Objective:** To determine if age influences the willingness to take financial risks for growth.

- **H0 (Null Hypothesis):** There is **no significant association** between age and investment risk appetite.

- **H1 (Alternative Hypothesis):** There is a **significant association** between age and investment risk appetite.

Table 2: Observed Frequency. (Age vs. Risk Appetite)

Age Group	Aggressive (Stocks/Equity)	Moderate (Mutual Funds/Balanced)	Conservative (FD/Gold)	Total
25 – 35 Years	25	20	10	55
36 – 50 Years	10	20	10	40
Above 50 Years	5	10	15	30
Total	**40**	**50**	**35**	**125**

Chi-Square Calculation Result

Particulars	Value
Degrees of Freedom (df)	4
Significance Level	5% (0.05)
Table Value	9.488
Calculated Chi-Square Value	24.65

Inference:

The calculated value (**24.65**) > Table Value (**9.488**).

Result: Null Hypothesis (H0) is rejected. Younger respondents are significantly more aggressive in their investment choices, directly contributing to capital market growth, while older respondents prefer capital preservation.

CORRELATION ANALYSIS

To measure the relationship between **Access to Credit (Loan Amount)** and **Business Growth (Turnover Increase)**.

- **Variables:**
- **X:** Loan Amount Availed (in ₹ Lakhs)
- **Y:** Annual Turnover Growth (in %)

Table 3: Computation of Correlation Coefficient .(r)

Observation	Loan Amount (X)	Growth % (Y)	X²	Y²	XY
Company A	50	25	2500	625	1250
Company B	40	20	1600	400	800
Company C	25	15	625	225	375
Company D	10	10	100	100	100
Company E	5	5	25	25	25
Total (Σ)	**130**	**75**	**4850**	**1375**	**2550**

Inference:

The calculated correlation coefficient is **+0.99**, indicating a **strong positive correlation**. Access to external finance (credit) is a direct driver of business expansion and turnover growth in the modern economy.

FINDINGS

Based on the percentage analysis of 125 respondents, the following specific findings were observed:

➢ **Majority of respondents (40.0%)** were Business Owners or MSME entrepreneurs, followed by 36.0% salaried employees and 16.0% professionals.

➢ **Most respondents (44.0%)** belonged to the 25–35 years age group, representing a young and active workforce driving the economy.

➢ **Most respondents (40.0%)** reported an annual household income between ₹5 Lakhs and ₹10 Lakhs, indicating a predominant middle-income group.

➢ **Majority of respondents (52.0%)** possessed a moderate level of financial literacy, understanding basic financial products but not tracking markets actively.

➢ **Most respondents (40.0%)** identified wealth creation as their primary financial goal, followed by business expansion (32.0%).

➢ **Majority of respondents (44.0%)** preferred Public Sector Banks as their primary source of capital, reflecting a continued reliance on traditional banking.

➢ **Nearly half of the respondents (48.0%)** found obtaining credit to be very difficult due to procedural delays and paperwork.

➢ **Most respondents (40.0%)** utilized loans primarily for working capital needs to sustain business operations rather than for asset creation.

➢ **Majority of respondents (56.0%)** perceived current interest rates as high and burdensome, affecting their borrowing decisions.

➢ **Majority of businesses (60.0%)** cited collateral requirements as the major hurdle for

securing loans, hindering small business growth.

➢ **Majority of respondents (72.0%)** have adopted digital banking as their primary mode of transaction, showing rapid technological adaptation.

➢ **Most respondents (48.0%)** save between 10% and 20% of their annual income, indicating a healthy savings habit.

➢ **Most respondents (36.0%)** preferred Mutual Funds and SIPs as their main investment avenue, signalling a shift from traditional fixed deposits.

➢ **Most respondents (40.0%)** were fully aware of the power of compounding in wealth creation.

➢ **Majority of respondents (52.0%)** identified their risk appetite as conservative, prioritizing the safety of capital over high returns.

➢ **Most respondents (44.0%)** held both Life and Health insurance policies, reflecting a comprehensive approach to risk management.

➢ **Most respondents (48.0%)** planned to start retirement planning at a later stage, showing a tendency towards procrastination.

➢ **Majority of businesses (56.0%)** reported that access to credit increased their annual turnover by more than 20%.

➢ **Majority of respondents (68.0%)** stated that digital payments have significantly improved the speed of their cash flow.

➢ **Most respondents (48.0%)** relied on friends and family for financial advice rather than professional consultants.

➢ **Most businesses (44.0%)** identified lack of funds or capital as the primary barrier to their business growth.

➢ **Majority of respondents (52.0%)** expressed high trust in the formal financial system and its regulations.

➢ **Most respondents (44.0%)** felt that GST and formalization increased their compliance burden, affecting ease of doing business.

➢ **Majority of respondents (64.0%)** planned to increase their investment allocation in the upcoming financial year.

➢ **Majority of respondents (60.0%)** were satisfied with the overall financial services available to them in the region.

SUGGESTIONS

- **Cash-Flow Based Lending:** Banks should move away from rigid collateral-based lending to cash-flow-based lending (using GST data) to support MSMEs.
- **Financial Advisors:** There is a need for affordable, professional financial advice for the middle class, as 48% still rely on friends/family for investment decisions.
- **Insurance Awareness:** Targeted campaigns are needed to explain that insurance is a safety net for the economy, not just a tax-saving tool.

CONCLUSION

The study comprehensively establishes that the Financial Services sector is not merely a facilitator but the primary engine of modern economic growth in Coimbatore. The analysis has validated the hypothesis that access to timely and affordable credit is the lifeblood of the MSME sector, with a **strong positive correlation (r = +0.99)** observed between credit utilization and business turnover.

However, the study also highlights critical structural bottlenecks. The persistent **"Collateral Wall"** and high interest rates act as significant barriers for small-scale entrepreneurs, often forcing them into the unregulated lending market. Furthermore, while the **"Digital Divide"** is narrowing, with 72% adoption of digital banking, the "Literacy Divide" remains wide; nearly half the respondents still rely on informal advice rather than professional financial planning.

A promising trend identified is the **demographic dividend** in investment behaviour. The clear shift among younger respondents (25–35 years) from "dead assets" like gold to productive financial assets like Mutual Funds and SIPs indicates a maturing economy where household savings are increasingly being channelled into capital markets. This transition is vital for long-term national capital formation.

In conclusion, for Coimbatore to sustain its trajectory as a leading industrial hub, the financial system must evolve from a "security-based" model to a "growth-based" model. Policy interventions focusing on cash-flow-based lending, enhanced financial literacy programs, and simplified compliance norms will be instrumental. A financial ecosystem that is inclusive, technologically advanced, and accessible to the "missing middle" will ensure that economic growth is not just rapid, but also resilient and equitable.

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