

# **Cultural Distance and Discrimination in Access to Financial Services: A Case Study for Bank Loans in Rural India**

## **Abstract**

Caste is a cultural marker that is often a source for discrimination and social tension in India. This paper aims to document the presence of cultural narratives that create discrimination in the provision of bank loans in rural India in order to synthesize the cultural economic mechanism behind perceived discrimination. We focus on the grey financial market of middlemen for bank loans in rural areas. We study the effect of cultural distance between the middleman and the loan applicant in terms of the social rank of their caste. We collect primary data from the rural area of Telangana State in India in the year 2023. We find that higher cultural distance between the middleman and the loan applicant is associated with a higher cultural discrimination effect. This effect reveals in the form of the time for waiting for the loan and the size of the loan finally granted. We compare the caste-based taste for discrimination to the religion and gender-based taste for discrimination in the same case study and find that the caste-based taste dominates the effect. Finally, we provide insight into the spread between objectively experienced and perceived discrimination in loan provision. We examine the impact from awareness of legal rights to report grey market activities on the discrimination level differences by cultural group. This allows us to shed some light on the degree of internalisation of culture-based stigma among the poor in India. We use the results from this case study to propose a general model of cultural filtering of emotions as a basis for the taste for discrimination in financial decision-making.

Keywords: Middleman, CDB, poor, caste and bank.