



“A STUDY ON THE IMPORTANCE OF BANKING PENETRATION IN FINANCIAL INCLUSION “WITH SPECIAL REFERENCE TO KERALA STATE”

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ABSTRACT

Growth of a nation depends upon the existence of a healthy and easy accessible financial system. The countries all over the world are facing the issue of having a healthy, easy accessible and inclusive financial system. According to the latest Global Findex report of World Bank 2014, there are about 38 percentages of adults around the world are unbanked. Amongst all other financial services banking services are considered as the most vital and important for a common man. So we can say that countries banking penetration has a substantial impact on the success and growth of financial inclusion. In this study we are trying to examine the role and importance of banking penetration in the success and growth of financial inclusion in India and also specifically in the state of Kerala, as Kerala has ranked as one of the top leading Indian state in the progression of financial inclusion .

KEYWORDS : Financial Inclusion, banking penetration, inclusive financial system.

I. Introduction

The term financial inclusion has become a buzzword in the economic affairs of a country around the world. The importance of financial inclusion has got the top most priority by Government and central bank of the respective country and also it has got a topic of interest by various policy makers, researchers, regulators, market practitioners and various other stake holders.

According to committee on Financial inclusion headed by Dr. C. Rangarajan defined financial inclusion as “The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost” (Reforms, 2009). According to World Bank report, “About two-thirds of regulatory and supervisory agencies are now charged with enhancing financial inclusion. And it also says, in recent years, some 50 countries have set formal targets and goals for financial inclusion”.

In the words of (Jerlin, 2017) in his research paper “A Study on financial access as a stepping stone for financial inclusion in Indian context”, the policy makers in India too i.e. Government of India and the RBI, had an early realisation about the repercussion of poverty for financial stability and have attempted to ensure that poverty is tackled in all its forms and that the benefits of economic growth reaches the poor and excluded sections of the society. In this research paper we will be examining the importance of banking penetration for the growth of financial inclusion with a special reference to Kerala state.

II. Research Objective

- To Understand the importance of banking penetration in the growth of financial inclusion
- To identify the major parameters which contributes to banking penetration to support the goal of financial inclusion at Kerala State
- To identify the growth of banking penetration in Kerala State

III. Review of Literature

(Eugin Prakash Pathrose, 2015), in this study talks about the challenges faced by banking customers in accessing financial services during the process of implementing various initiatives taken by RBI to achieve financial inclusion in India. This study has made a special reference to the state of Kerala as Kerala is ranked one of the best states in India in terms of achieving financial inclusion targets.

(Kavitha, 2015) In their research paper talks about the direct link between poverty and financial inclusion and also trying to

understand how financial inclusion has indirectly helped in improvement of financial literacy and therefore poverty with special reference to the state of Tamil Nadu.

In their research work, (Dilip Ambarkhane, 2016) was trying to measure financial inclusion and thereby studying the impact of various initiatives by stakeholders and to decide on the future course of action. This paper also trying to include all possible financial services like insurance, pension, financial literacy and remittances along with banking related initiatives to measure financial inclusion. They have used an index with three dimensions namely demand, supply and infrastructure.

(Das, 2017), in his paper titled “Financial Inclusion through Kudumbasree Programme”, he is trying to understand financial inclusion and its impact on women, Kudumbasree programme and finally talks about the support of Kudumbasree in achieving financial inclusion. This study is primarily focussed on the state of Kerala which is ranked top for the financial inclusion achievements, women empowerment programmes and poverty alleviation.

(Joseph, 2017), in this study trying to understand the process of implementing financial inclusion drive for women's in the district of kottayam, Kerala and also trying to assess the effectiveness in influencing the financial behaviour of women MNREGA beneficiaries.

From the above research review it is very clear that there are no much study were taken place in terms of banking penetration and its importance and impact on financial inclusion in Kerala. This is considered as the research gap and scope for this research paper.

IV. Research Methodology

This study is of descriptive research in nature, meaning a description of the state of affairs as it exists at present and is limited to a span of 4 years i.e. 2013 to 2016. This study is based on a secondary data which are primarily collected from reports of the State Level Bankers Committee (SLBC), Kerala and from the online website of the SLBC, Kerala and from various published reports of Reserve Bank of India (RBI). This study considered the data which are provided by various banks that are reporting to SLBC, Kerala which include State bank group, Nationalised banks, Public sector banks, Regional rural banks, foreign banks and Cooperative banks.

V. Limitations of the Study

- This study is restricted only to the state of Kerala
- The period of study consists of only four years. However, the number of years for some of the analysis is subject to the

availability of data.

- This study is fully based on the secondary data and the accuracy of the analysis is subject to the accuracy of the data.
- This study has made a sincere attempt to cover all the areas but still there are areas may not have covered.

VI. Importance of Bank Penetration for the Growth of Financial Inclusion

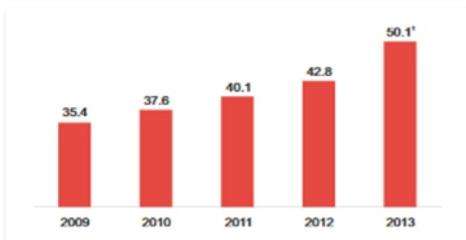
Financial inclusion is a process of bringing the financially excluded and vulnerable category of people into the formal financial system there by attaining an inclusive growth and prosperity in the economy. There are various parties involved in this mission; among them the policy makers play an important role. In India policies related to financial inclusion are taken by Government of India and Reserve Bank of India. The role of RBI in financial inclusion has started way back in 1960 when focus was on channelizing of credit to the under privileged and neglected sectors of the economy was the highest priority.

According to latest Global Findex report of World Bank, "India was considered as a place of largest unbanked population where, only 35% of adults having an account in financial institution until 2011 but this percentage has grown up to 61.5% between 2011 and 2015. In other words bank account penetration in India has increased by 18.1% i.e. 175 million adults in India has become account holders between 2011 and 2015. This growth is achieved as a result of Government and RBI push for financial inclusion. Out of all the initiatives taken by Government of India and RBI, the launch of Pradhan Mantri Jan Dhan Yojana scheme in August 2014, with the goal of opening bank account for every house hold has boosted the financial inclusion numbers to heights by end of 2015. According to the RBI reports "By the end of January 2015, it had led to the opening of 125 million new bank account". Public sector banks have contributed the maximum by opening 97% of PMJDY accounts" (Bank, 2014).

VI.1. CRISILInclusix – Bank Penetration in India

CRISIL Inclusix is the India's first comprehensive index for measuring financial inclusion, developed with the support from Ministry of Finance, Government of India and Reserve bank of India.

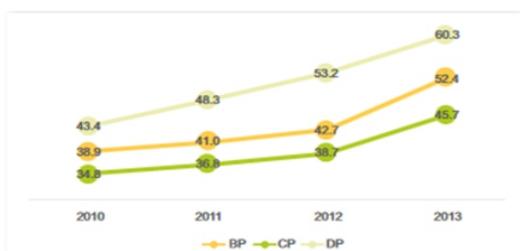
Figure VI.1.i: CRISILInclusix Score of India



Source: (CRISILInclusix, 2015)

According to the latest CRISIL Inclusix report, the national level CRISIL Inclusix score of India has achieved 50.1 at the end of fiscal year 2013 that is against 42.8 in the year 2012. The major reason for such increase is due the bank penetration happened in India during that period which is given the following figure;

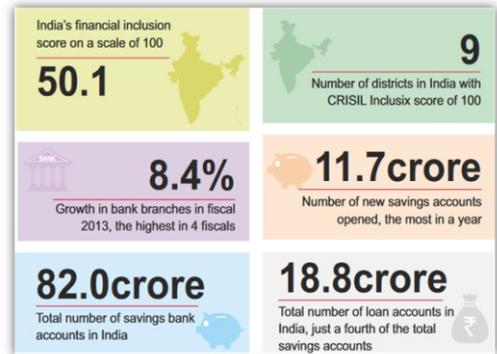
Figure VI.1.ii Growth Trend in Banking Penetration in India



Source: (CRISILInclusix, 2015)

From the above figure it is evident that the banking services has improved in the year 2013 compared to the last 3 years in terms of Branch Penetration (BP) 52.4, Deposit Penetration (DP) 60.3 and Credit Penetration (CP) 45.7 this has reflected in the overall score of India.

Figure VI.1.iii: Financial Inclusion in India, an Over View



Source: (CRISILInclusix, 2015)

From the above figure VI.1.iii, it is very evident that India has improved in its Bank penetration and there for its overall financial inclusion score also improved to 50.1 in the fiscal year 2013.

VI.2. CRISILInclusix – Bank Penetration in Kerala

Figure VI.2.i: Top Scoring States on CRISIL Inclusix

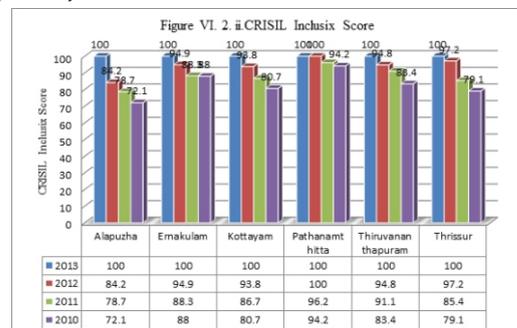
Large States	Small States	Union Territories
Kerala	Goa	Puducherry
Tamil Nadu	Tripura	Chandigarh
Karnataka	Himachal Pradesh	Delhi

Table 5: Bottom scoring states on CRISIL Inclusix

Large States	Small States	Union Territories
Bihar	Manipur	Daman & Diu
Rajasthan	Nagaland	Dadra & Nagar Haveli
Jharkhand	Arunachal Pradesh	Andaman & Nicobar Islands

Source: (CRISILInclusix, 2015)

According to the latest CRISIL Inclusix report, among the various states in India, South region remain the top in Financial Inclusion, among the south states and Kerala state ranked 1st with a Score of 88.9 (2013) and 2nd is Tamil Nadu state with a score of 79.2 (2013) in the category of Large states and ranked 2nd and 3rd respectively when small states and union territories are included. Kerala state has consistently improved its rank from 2010 to 2013 i.e. 4th, 3rd, 3rd and 2nd respectively.



Source: (CRISILInclusix, 2015)

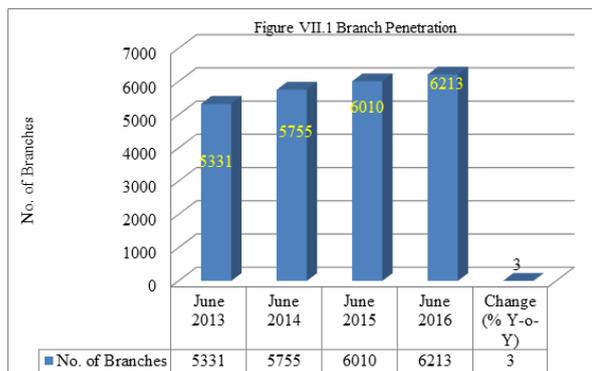
According to the latest CRISIL Inclusix report, there are nine districts

in India is having CRISIL Inclusix score of 100, and of which six districts are from the State of Kerala namely Alapuzha, Ernakulam, Kottayam, Pathanamthitta, Thiruvananthapuram and Thrissur.

VII. Bank Penetration in Kerala

The Government of India and Reserve bank of India has jointly conceived the goal of financial inclusion and emerged as a policy objective in India for a long period of time. In the entire marathon process and initiatives, the role played by Reserve Bank of India (RBI) is commendable. Under the leadership of RBI, the entire banking sector has achieved heights in terms of extending financial access to the marginalised and underprivileged mass in India. Among those banks, contributions of banks in the State of Kerala are indispensable. In order to understand the growth of banking penetration in Kerala State, the following important parameters of bank penetration relevant for financial inclusion are identified.

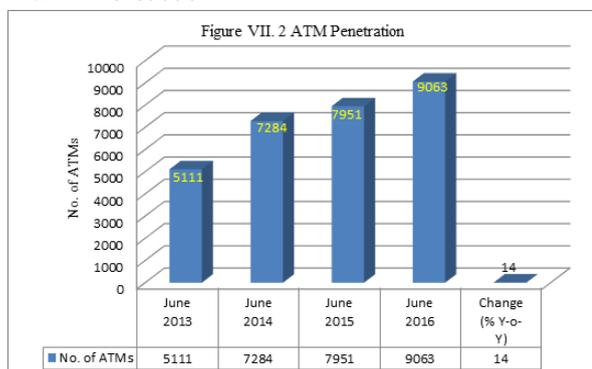
VII.1 Branch Penetration



Source: (Committe, 2016)

Interpretation: According to the information provided by the state level bankers committee, Kerala State, Branch penetration in kerala is consistant and progressive in nature. As per the above figure VII. 1, number of branches in Kerala has increased from 5,331 to 6,213 and the percentage change in this number year to year is 3. According to the Population Census 2011, Kerala has got a population of 3, 33, and 87,667. As per the above records, Kerala has only 0.19 number of branches per one thousand population, which is 0.09 in India.

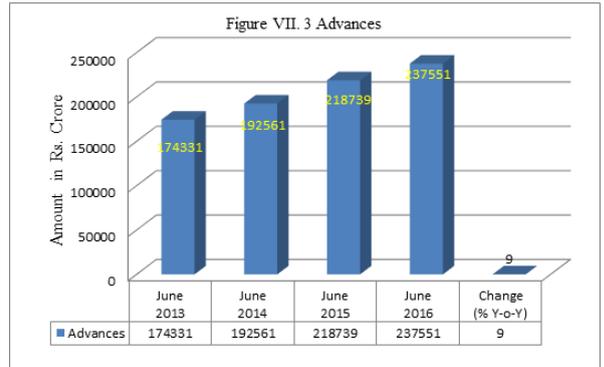
VII.2 ATM Penetration



Source: (Committe, 2016)

Interpretation: According to the information provided by the state level bankers committee, Kerala State, ATM penetration in Kerala is consistent and progressive in nature. As per the above figure VII.2, number of ATM's in Kerala has increased from 5,111 to 9,063 and the percentage change in this number year to year is 14. According to the Population Census 2011, Kerala has got a population of 33387667. As per the above records, Kerala has 0.27 number of ATM's per one thousand population, which is 0.09 in India.

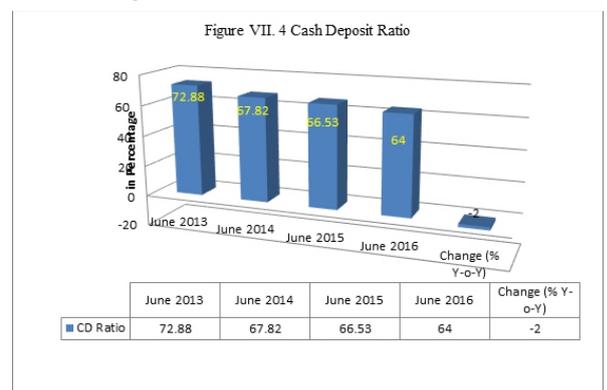
VII.3 Advances



Source: (Committe, 2016)

Interpretation: According to the information provided by the state level bankers committee, Kerala State Kerala is consistent and progressive in terms of providing advances to the needy people in Kerala. Banks in Kerala has provided Rs.237551 Crores as advances which is much higher against the amount given in the year 2013 i.e. Rs. 174331 Crores. Kerala is having a change in providing advances by 9% year to year.

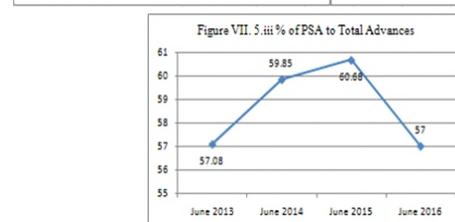
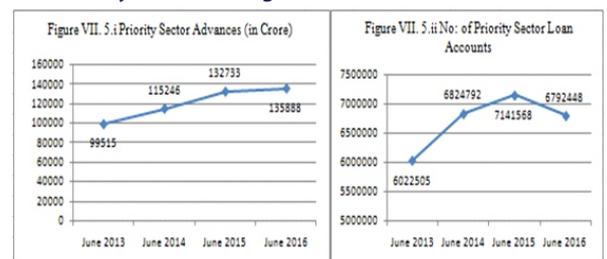
VII.4 Cash Deposits (CD's) Ratio



Source: (Committe, 2016)

Interpretation: According to the information provided by the state level bankers committee, Kerala State kerala is facing a severe issue in terms of cash deposit ration which is showing a declining changes of -2% year to year from 2013 to 2016.

VII.5 Priority Sector Lending

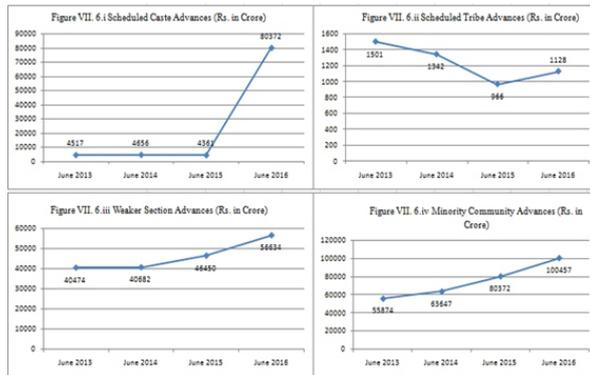


Source: (Committe, 2016)

Interpretation: According to the information provided by the state

level bankers committee, from the above figure it is very evident that there is an increasing trend in the amount of advances given in the priority sectors but the number of priority sector accounts and priority sector advances as a percentage of total advance is showing a negative trend in the year 2016 compared to the previous years.

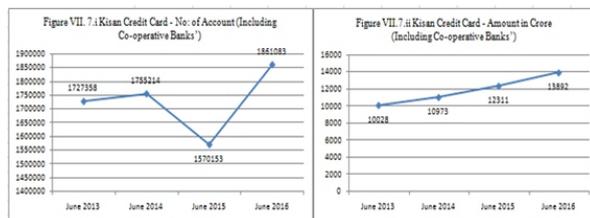
VII.6 Schedule Caste, Scheduled Tribe, Weaker Section and Minority Community Advances



Source: (Committe, 2016)

Interpretation: According to the census report 2011, the Scheduled Caste (SC) population of Kerala State is 3,123,941 which is 9.8% of overall population. Scheduled Tribes (ST) in Kerala with a population of 3.64 lakh constitute 1.14% of the population of state. Minority population consist of 45.04 and weaker section is 19.6% of the total population. As per the figure VII.6.i, ii, iii and iv, except the advances given to Scheduled Tribe, advances given to all the other above mentioned sections are on a increasing trend.

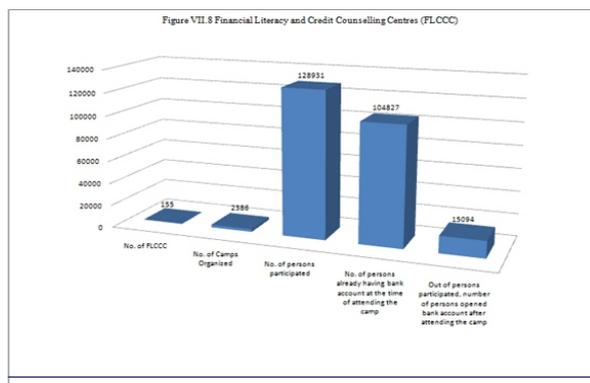
VII.7 Kisan Credit Card (KCC)



Source: (Committe, 2016)

Interpretation: KCC is introduced by National Bank for Agriculture and Rural Development (NABARD) in the year 1998 to meet the comprehensive credit requirement of the agricultural sector in India. According to the Census report 2011, in Kerala there are 668279 (2% of total population) farmers and 1322850 (3.96 % of total population) agricultural labours. From the above figure VII.7.i and ii, the number of KCC issued and amount of credit provided are increased in the year 2016.

VII.8 Financial Literacy and Credit Counselling Centres (FLCCC)



Source: (Committe, 2016)

Interpretation: According to the information provided by the state level bankers committee, there are 155 FLCCC are set up in various districts of Kerala and they have conducted 2386 camps are conducted and after the camp there are about 15093 people have opened a bank account.

VIII. Conclusion

The contributions of Reserve Bank of India in achieving the national prime important goal i.e. financial inclusion are immense. RBI has taken all possible measures to extend its banking products and services to the large excluded population of the country. Amongst all other financial services banking services are considered as the most vital and important for a common man. So we can say that countries banking penetration has a substantial impact on the success and growth of financial inclusion. According to the latest CRISIL Inclusix report India has achieved greater improvement in financial inclusion score. Among the other states in India, Kerala has ranked one of the top states excelled in the financial inclusion score. Among the districts in Kerala there are six districts have secured 100 Score in CRISIL Inclusix index. It is also observed that Kerala has improved in terms of branch penetration, ATM penetration, advances to the needy people and also in financial literacy. But in the year 2016 Kerala has witnessed a drastic decline in the Cash deposit ratio, number of accounts opened in priority sector lending, percentage of priority sector lending on total advances, also there is a decline in the advances provided to the scheduled tribes.

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