Financial Inclusion in Karnataka: A Study on Banker's Initiatives

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Abstract

The three major aspects of Financial Inclusion are to make people access financial, credit markets and financial education. India was faced with more complex issues of illiteracy, poverty,malnutrition, sustainability and underdevelopment; and the prime focus of Governmentremained Development for Sustainability and Inclusive Growth. In order to eradicate the poverty andto achieve uniform growth all over, various measures have been taken from time to time whichinclude building and strengthening rural cooperative sector, nationalization and privatizationand expansion of financial sector. Easy Access to sources of finance is believed to be an important tool to poverty alleviation and inclusive growth

As per the recommendation of Khan Commission-2004, various reformative measures have been taken by Reserve Bank of India and Government of India. Most of the recommendations of the Khan Commission were incorporated in the mid-term review (2005-06) of Reserve Bank of India. In this report, Banks were exhorted upon to take up various strategies in order to achieve Greater Financial Inclusion. Banks throughout the Country scaled up their initiatives to achieve their targets for Financial Inclusion and have succeeded in doing so to a large extent. This paper studies the vital Financial Inclusion Indicators; Credit-Deposit Ratio, Financial Exclusion; and also studies various initiatives taken up by Bankers in the State of Karnataka for financial inclusion and assessing the progress of the same in the State.

***Keywords**: Financial Inclusion, Sources of Finance, Banks Initiatives, Financial Exclusion*

Introduction

Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services." The term Financial Inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of Financial Inclusion differs among countries. It‟s been surprising fact that India ranks second in the world in terms of financially excluded households after china .For the inclusive growth process of economy the central bank has also provided high importance to the financial inclusion.

Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of this public policy. Thus the term Financial Inclusion can be defined 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.

Financial access is considered as the major tools of development and poverty alleviation. Similarly Financial Sector reforms in India are driven by the objective of Inclusive growth and unrestrained accessto Finance. Various initiatives and reforms have taken place in this direction since Independence. Anetwork of CooperativeBanks to provide credit for agriculture was developed immediately afterIndependence which was followed by nationalisation of banks and targeted priority sector lending in 1969 and thereafter. With the changing paradigm of the Indian Economy from agrarian to Industrial and subsequently to Services Economy, the focus shifted from subsidised credit and priority sector lending to enterprise driven. However, care was taken that the poor and disadvantaged are not ignored in this journey to economic stability and excellence. Postliberalisation India (1991 onwards) saw numerous structural changes in the financial sector; interest rate deregulation, de-licencing, privatisation and entry of new entrants changed the financial milieu of the country. Keeping its socialist objectives in mind various steps have been taken by the Government of India post-liberalisation to ensure that the growth in the economy is not unilateral and that the poor get their due share. With subsidised credit and priority sector lending included in the menu, various other initiatives were taken like NABARD's Self Help Group (SHG) - Bank Linkage programme in 1992 which was followed by provision for unsecured credit to farmers via KisanCredit Card (KCC) Scheme in 1998-99. Moreover on the recommendations of the Internal Group of RBI on Rural Credit and Microfinance (popularly known as KhanCommittee recommendations, most of which were incorporated in the mid-term review of Reserve Bank ofIndia Annual Policy – 2006-06), guidelines were issued to expand the reach of banking sector with support from Information and Communication Technology (ICT) for spearheading financial inclusion in the country.
Financial Inclusion was declared as a top priority and the Banks were exhorted upon to devise strategies toachieve the objective of Financial Inclusion.

Banks were asked to scale up their initiatives which includeState Level Bankers' Committee (SLBC) allocation of the villages without Bank branches, opening of nofrillsaccount etc. Also the Committee on Financial Inclusion under the chairmanship of Dr. C. Rangarajan(popularly known as Rangarajan Committee - 2008) was set up by the Government of India to look into theissues of financial exclusion. The Committee recognised that the developments in the technology andincreasingly sophisticated customer segmentation technology have led to restricted access to financialservices for some groups. This divide has grown so wide that 73% of farmer households in the country lackaccess to finance either from institutional or formal sources of credit. The Committee came out with 179point strategy to fill the divide of exclusion and it was suggested that in order to build an inclusive financialsector effective improvements within the credit delivery mechanism is needed. Besides, the Committeesuggested for improving absorption capacity among the excluded, evolving new models to increase outreachand leveraging on technology for the achievement of twin objectives of inclusive growth and povertyalleviation. The report suggested certain specific measures like opening of no-frills accounts, routingNational Rural Employment Guarantee Programme (NREGP) payments through banks, product innovation,issue of general purpose credit card, granting overdraft facilities to Saving Bank (SB) accounts, providingservices through bio-metric smart cards, leveraging technology, developing Business Facilitator/BusinessCorrespondents as Intermediaries in delivering financial services, etc. The Committee suggested thatFinancial Inclusion needs to be taken in a mission mode and devised various ways and means towards thisend like; by creating a Financial Inclusion Promotion and Development Fund (FIF) and Financial InclusionTechnology Fund (FITF) with NABARD having contributions from Government of India, NABARD andReserve Bank of India with an initial corpus of Rs.500 Crore. Since then bankers nationwide have beenstriving hard to achieve the objectives of Financial Inclusion and so has been true with the state of Jammuand Kashmir. The State of Jammu and Kashmir shows the worst performance in the Northern Region with68% of its people excluded from access to finance (Report of the Committee on Financial Inclusion, 2008)

Review literature

Levine (1997) empirically tested the neo-classical view and finds that countries with larger banks and more activestock markets grow faster over subsequent decades even after controlling for many other factors underlying economicgrowth. Equally important is access to finance by all segments of the society (Levine 1997, Pande and Burgess 2003)**.**Finance can also play a positive role in poverty reduction. A well developed financial system accessible to all reducesinformation and transaction costs, influence saving rates, investment decisions, technological innovation, and long-rungrowth rates (Beck *et al.* 2009). Evidences from Binswanger and Khandker (1995) and Pande and Burgess (2003) suggestthat Indian rural branch expansion program significantly lowered rural poverty, and increased non-agriculturalemployment.

A key objective in development economics is to work out ways to lift people out of poverty. Access to finance hasbeen seen as a critical factor in enabling people to transform their production and employment activities and to exit poverty (Aghion and Bolton 1997, Banerjee 2001, Banerjee and Newman 1993, Pande and Burgess 2003, Yunus 1999).

Access to finance or Financial Inclusion has been a part of and rather envisaged and embedded in the creditpolicies since Independence. The access was mainly concentrated around credit in the earlier decades andthe process has passed through various phases of development, through disguised form and without the Financial Inclusion nomenclature and emphasis (Rao – 2007). However, a new direction was given to thisconcept by the Committee on Financial Inclusion which remarked that *"Financial Inclusion may be definedas 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"*. RaghuramRajanCommittee – 2007, views Financial Inclusion, broadly, "*as universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products"*.

There are tremendous barriers which hamper percolation of fortunes to the 'bottom of the pyramid'(Subbharao – 2009). Thus the biggest problem for us today is to minimise barriers leading to selectiveexclusion of few disadvantaged sections of our society. The barriers have grown big from both the demandand supply side; demand side factors are illiteracy, unwillingness and scepticism of the structure and normsof formal financial sector and supply side barriers are non-bankable perception, cumbersome procedures,unsuitable products, staff attitude (Thorat – 2007, Agrawal - 2008). *Financial Inclusion, or broad access tofinance, is defined as the absence of price or non-price barriers in the use of financial services* (World Bank-2008). Financial exclusion is a classic case of 'missing markets', the poor avail financial services but facethe negative consequences either because the existing cost structure of these services is unaffordable to themor the services are inadequate and ineffective to meet their specific needs [India Development Foundation(IDF) Discussion Paper, 2009]. The banking products do not serve the purpose to these disadvantagedsections because these products are standard which offer least flexibility to meet the purpose of the poor.

Financial Inclusion was taken in a project form on pilot basis by Indian Bank in Mangalamvillage ofPuducherry in 2006, with support from NABARD and RBI. The project was featured with Relaxed KYCnorms, support from NGOs, SHGs, students, volunteers, MFIs, and other civil society. Coupled with No-Frills account, low cost life and health insurance were also provided at the time of opening the account(Natarajan and Nirupama, 2010; IDF Discussion Paper – 2011). Financial Inclusion in India is prominentthrough microcredit through SHGs, no frills accounts (Arulumurugan, 2010), KCC and through businesscorrespondents. Technology has to play an important role in achieving the objective of inclusive growththrough financial inclusion.Financial Inclusion will make it possible for governments to make paymentssuch as social security transfers, NREGP, wages into the Bank Accounts of beneficiaries through theElectronic Benefit Transfer (EBT) method (Agrawal, 2008). Realising the importance of technology indelivery of financial services to unbanked areas, a technology driven low cost platform has been designed,which since its implementation is the preferred route for reaching out to the excluded sections of the society.Business Correspondent is proving to be a very cost effective and technology driven channel for delivery ofbasic financial services and a substantial progress has been achieved in establishing basic financialinfrastructure through Business Correspondent model (Prabha et. al., 2012). The present study is an attempt to look into the variousstrategies that banks have employed to reach the disadvantaged set of population in the State and to brieflyanalyse the progress made so far.

Objectives of the study

This study has been aimed with following objectives in mind:

1. To briefly examine the various financial inclusion initiatives taken by the banking fraternity in the State.
2. To evaluate the progress and current status of Financial Inclusion in the State.

Methodology

The data for the present study has been collected primarily from secondary sources. The secondary data wasobtained from reports, journals, NABARD Supplementary Statements, State Level Banker’s CommitteeReports, Census 2011, Economic Surveys and websites. The Primary data required for the study wascollected from unstructured discussions with various Bank Executives, NABARD Officials, BusinessCorrespondents, etc. The discussions regarding various strategies have been done in Mysore only. Relevant banking functionaries from top and middle level management were consulted during these discussions.

Results and discussions

Financial Inclusion Initiatives

Table 1: Banking/financial sector profile of Karnataka State (as on September 2012)

Banking profile of the State		**Commercial Banks**	**DCC and KSFC**	**RRB's**	**Other Banks**	**Total**
	Banks	**27**	**20**	**06**	**14**	**67**
	Branches	**5760**	**687**	**1397**	**216**	**8060**
Branch Network (In Numbers)		**Rural**	**Semi-Urban**	**Urban**	**Total**	
		2443	**1595**	**4022**	**8060**	
	Total deposits	**Total advances**	**C.D Ratio**	**Advances to priority**	**Percentage of priority sector advances to total advances**	
Banking Parameters (Amount in Rs. Crores)	**410233**	**304940**	**74.33%**	**122253**	**40.09%**	
		Advances to weaker sections	**Share in total advances**	**Agriculture advances**	**Share in total advances**	
		39085	**12.82%**	**59088**	**19.38%**	

Bankers throughout the Country have been thriving to achieve the allocated targets towards Financial Inclusion and so have been the bankers' of the State of Karnataka.

Financial Inclusion Program was taken on pilot basis for 100% Inclusion. Banking Community of the State has been working in line with the various strategies pursued elsewhere in the country. Some of the major initiatives in this direction and the progress made in the same are discussed as under:

No Frills Accounts

Pursuant to the RBI guidelines, banks in the state are offering no-frills accounts to its vast majority of excluded population. The basic banking 'no frills' account is offered with zero minimum balances, relaxed Know Your Customer (KYC) norms and minimum charges to the low income population to expand the outreach of financial access.

Micro Credit and advances to weaker sections

Micro-credit and advances to weaker sections form a significant portion of Priority Sector lending. The Govt., through NABARD and Banking Institutions, is emphasizing & encouraging formation of Self Help Groups / Joint Liability Groups of farmers. The target of providing KCCs/GCCs to financially excluded people, particularly tenant farmers, oral lessees, landless labourers and those belonging to weaker section is best addressed by linking this program with promotion of JLGs/SHGs. Banks have disbursed micro loan of Rs. 883 Crores to SHGs under direct linkage in the first half year, of which the share of women SHG was Rs. 819 Crores.

The level of advances under Weaker Sections was Rs. 39085 crore as of Sep 2012 against the level of Rs. 26910 crore during the corresponding previous year. Banks have shown Y-O-Y growth of 45.24 % in the level of outstanding advances under weaker sections as at Sep 2012 over the previous year. The % of advances to weaker sections to total credit stood at 12.82% as against the stipulated target of 10%.

Kisan Credit Scheme

Kisan Credit Card came into existence in 1998-99 as a credit product and as an important tool and a variantof Agricultural Credit Delivery Mechanism, which allowed farmers the required financial liquidity and availcredit when it was absolutely needed. The Banks have issued **448599 KCC Cards**upto Sep 2012 with credit limit of **Rs. 4731 crore.**

All Banks have been providing wide publicity of the scheme and implemented the revised scheme from the current cropping season itself. The withdrawal from KCC should be made through ATM/ Debit Cards. SLBC has also requested the Banks to confirm having advised all their branches on implementation of new KCC scheme and select 1-2 villages in their area of operation for coverage of every eligible household in the village

Leveraging technology to expand outreach

The SLBC theme for the current year was "**Comprehensive Financial Inclusion".** In the first phase, all the identified 3395 unbanked villages was provided with banking outlets. Under population group of 1600 to 2000 as per 2001 census, **1562 villages** in the State under **Swabhimaan** Financial Inclusion Plan have been identified and allocated to the Banks based on Gram Panchayat model for providing banking outlets. **As of 20th December 2012,**

272 villages are covered by BCs. It was also proposed to make use of existing BCs for providing services in other villages without waiting for common RFP mechanism as it may take some more time to be put in place. All Banks are requested to complete the process of Financial Inclusion in the identified villages by 28.2.2013 without fail. In tune with RBI guidelines on roadmap for providing banking services in villages with population below 2000, the LDMs have allocated 23,481 villages having less than 2000 population in their respective districts.

SHG-Bank Linkage Program

Self Help Groups are believed to be most effective tool for delivering credit and is often considered as analternative loan delivering system with minimal defaults. This delivery channel minimizes the cost ofoperation and transaction for banks and is effective for delivering credit particularly to rural poor for theireconomic empowerment and social development. SHG-Bank Linkage is one of the oldest programscurrently operating in the Country and emphasis has been laid down on banks throughout the country toscale up this channel for achieving the objective of Financial Inclusion (Rangarajan Committee Report –2008). The Scheme has been launched in the Karnataka State way back and a significant progress has been madein this regard, but the Banks are still hesitating in venturing out in this scheme and a lot is yet to be done toachieve the greater objectives of inclusive growth and development.

Progress under SHG Bank Linkage as at Sep 2012 was; Commercial Banks (direct) have credit linked 16796 SHGs with an amount of Rs. 419.01 crore and indirectly 8265 groups with a limit of Rs. 108.62 crore. RRBs have credit link of 9407 groups with an amount of Rs. 219.27 crore and Co-op. Banks have credit linked 16692 groups with a limit of Rs. 244.48 crore during the first half year of 2012. NABARD has informed that 50,000 new SHGs are to be promoted in districts where the density of SHG is low (Haveri, Bijapur, Belgaum, Bagalkot&Koppal), 1,50,000 new SHGs are to be credit linked and per group finance to be increased to Rs.2.50 lakh to facilitate members of SHGs to take up income generation activities. Further for promoting and linking 40,000 JLGs during the current fiscal. NABARD has categorized SHG Accounts into 'Active' and 'Inactive'.

Other Initiatives

The new Branch Authorization Policy of Reserve Bank of India encourages banks to open branches in under banked states and the under banked areas of other states (Agawam – 2008).

Bankers in the State of Karnataka have been working vigorously in bringing the unbanked areas within the formal banking reach. In this regard, a comprehensive plan has been developed in respect of unbanked blocks and under banked areas of Karnataka State declared by Reserve Bank of India. As per the State Consolidated Branch Action Plan, 272 new bank branches are to be opened in these identified areas. Also in terms of bringing the villages having a population more than 1600 and less than 2000 into the fold of banking system, a comprehensive action plan has been framed and all the 3395 such villages have been allocated to the respective banks.

Major Findings

1. Under the State Financial Inclusion Plan, 672 villages from 1562 villages have been covered by ending of December 2012.

2. The banks operating in the state have adopted the BC model for delivery of financial services to uncovered villages, 672 out of a total of 1562 villages have been covered through BC model.

3. The bank credit has been bullish as represented by the Credit-Deposit Ratio of 74.33% against the benchmark of 60.

4. Advances to Priority Sector and Advances to Weaker Sections are 40.09% and 12.82% respectively, thus showing that banks are keen in furthering credit disbursement to priority sector

5. Micro-Credit and advances to weaker sections comprise of almost 2.8% and 12.82% of the priority sector respectively.

7. Kisan Credit Card Scheme has witnessed a very low achievement of approximately 7% of the targeted Rs.4731Crorefor 4,48,599 beneficiaries.

8. SHG-Bank Linkage Program and other Government Scheme have also seen a tremendous progress in the State.

9. The State banking community has developed a time bound comprehensive action plan for achieving the objective of 100% Financial Inclusion in the State.

Conclusion

Various efforts by the RBI to further Financial Inclusion aim at ‘connecting people’ and not just openingaccounts (Subbharao – 2009). No doubt, a significant progress has already been achieved in the State of Karnataka to achieve the wider objective of Inclusive growth through financial inclusion; even thebankers and the government agencies have shown earnestness in implementing the Financial Inclusion Planin a coordinated manner. But it is also important to keep in mind that the objective behind all such effortsdoesn’t get diluted and that Banks operating in the State don’t resort to camouflaging tactics. A lot hasalready been done but a lot is yet to be achieved, so bankers need to keep reforming their plans and ensurethat the poor are not left to the clutches of informal sources of finance. There is a need to work in acoordinated way to remove the constraints (both supply side and demand side) in order to achieve theobjective of Greater Financial Inclusion for Poverty alleviation,

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