Research Paper

Financial Inclusion in Karnataka state: an Assessment

Dr.G.Lohith

Assistant Professor of Economics, Government First Grade College, Banavara, Hassan, Karnataka, India

ABSTRACT

The Banking industry has shown tremendous growth in volume and complexity since nationalisation of commercial banks in India. But, there are concerns that banking industry has not been able to include vast segment of the population into the fold of basic banking services especially the disadvantaged sections of the society. Hence, there is a dire need for the emergence of Financial Inclusion as a strategy to bring in the excluded people into the mainstream of the society. At present the key driver of India's vision of an inclusive society is Financial Inclusion.

Karnataka is one among few developed states of India which has well developed financial infrastructure. Karnataka state has pioneered in establishment of many leading commercial banks namely State Bank of Mysore, Syndicate Bank, Canara Bank, Corporation Bank, Vijaya Bank, Karnataka Bank, and Vysya Bank. Karnataka secures fourth place in aggregate bank deposits mobilization and gross credit distribution in selected states in the year 2018-19. In CRISIL Inclusix 2016 survey, Karnataka secure 6th rank in India by scoring 82.1 points out of 100 points. Along with the above financial infrastructure, the cooperative credit system has its own place in the state with respect to rural credit delivery system. But the availability of financial infrastructures is not evenly distributed in Karnataka. It results in less financial inclusion in rural and semi-urban areas.

The present research studies the progress of financial inclusion in Karnataka state in comparison with India. The present study is based on secondary sources of data. The study found that banking penetration in Karnataka is above the national average both in terms of geographical and demographical access to financial inclusion. Regression results reveals that in Karnataka on an average, every one percentage increase in bank branches per 1000 square kilo meter on an average, leads to increase in bank accounts per 1000 population by 0.7098% and India it was an average 0.4838%.

KEYWORDS: *Financial inclusion, Karnataka, Banking penetration, Bank, Financial exclusion*

I. INTRODUCTION

The Banking industry has shown tremendous growth in volume and complexity since nationalisation of commercial banks in India. But, there are concerns that the banking industry has not been able to include a vast segment of the population into the fold of basic banking services, especially the disadvantaged sections of the society. Hence, there is a dire need for the emergence of Financial Inclusion as a strategy to bring in the excluded people into the mainstream of the society. At present the key driver of India's vision of an inclusive society is Financial Inclusion.

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost" (Rangarajan Committee 2008). The various financial services include affordable credit, savings, insurance, bank account, financial advice, payments and remittance facilities. But, In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more.

Exclusion of large segments of the society from financial services adversely affects the overall economic growth of a country. Therefore, the Reserve Bank of India and the Government of India has initiated many programmes namely social control of Banks (1960), Nationalization of Banks (1969), Priority sector lending stipulation by RBI (1972), Regional Rural Banks (1975), Lead Bank scheme (1969), Microfinance-Self help Group-Bank linkage facilitated by NABARD (1989), National pilot project on Financial Inclusion (2005),

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Swabhiman Abiyaan (2011) etc., towards financial inclusion. But, a crucial breakthrough to financial inclusion is done by implementing Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014.

Karnataka is one among few developed states of India which has well developed financial infrastructure. Karnataka state has pioneered in establishment of many leading commercial banks namely State Bank of Mysore, Syndicate Bank, Canara Bank, Corporation Bank, Vijaya Bank, Karnataka Bank, and Vysya Bank. Karnataka secured fourth place in aggregate bank deposits mobilization and gross credit distribution in selected states in the year 2018-19. In CRISIL Inclusix 2016 survey, Karnataka secured 6th rank in India by scoring 82.1 points out of 100 points. Along with the above financial infrastructure, the cooperative credit system has its own place in the state with respect to rural credit delivery system. But the availability of financial infrastructures is not evenly distributed in Karnataka. It results in less financial inclusion in rural and semi-urban areas. Hence, the present research studies the progress of financial inclusion in Karnataka state in comparison with India.

II. REVIEW OF RELATED LITERATURE

Kempson and whyley (1998) opinions that the possibility of financial exclusion is more likely to occur in the lower income section of society than amongst others. Beside this, geographical factors and income inequality are the most important factors in determining financial inclusion of a country.

Minakshi Ramji (2009) studies the financial Inclusion in Gulbarga district and comes out with the fact that the number of households with bank accounts doubled over the duration of the financial inclusion drive, during 2006-07. The study revealed that 36% of the sample remained excluded from any kind of formal or semi-formal savings accounts. The author also founds that Savings in Self-Help Groups remains the most popular form of savings in a formal/semi-formal place.

World Bank's Global Findex Database (2015) indicates that only 53.1% of adults in India have an account at a formal financial institution. Only 43.1% of adults belonging to the poorest quintile have a formal account. It also revealed that only 14.4% of adults save in a formal account. Formal borrowing in India is also low with only 6.4% of adults having obtained a new loan from a formal financial institution over the previous 12 months. This is lower than in other major Asian developing countries.

Günther, M. (2017) studies the progress of financial inclusion in India. Author found that there is substantial progress in the financial inclusion during 2013 to 2015. In 2013, 47 percent of Individuals had a bank account relative to 66 percent in 2015 and 90 percent of the households owned at least one bank account in 2015.

CRISIL. Inclusix. (2018) measures the extent of financial inclusion at a geographical level, for National, State, and district levels. India's CRISIL Inclusix score improved from 50.1 to 58.0 during 2013 to 2016. In the region wise ranking, Southern states continue to lead with an overall score of 79.8 followed by West (62.8), North (51.7), East (48.2) & North-East (46.5). In the state wise ranking Kerala attains top spot followed by Goa, Puducherry, Chandigarh, Karnataka, and Andhra Pradesh. In the top 50 districts of CRISIL Inclusix ranking, Karnataka had the maximum of 13 districts followed by Kerala (12).

III. OBJECTIVES OF STUDY

The main objectives of the study are;
- To study the progress of financial inclusion in Karnataka state in comparison with India.
- To study the impact of financial inclusion programmes in Karnataka.
- To asses and analyse the financial facilities available in Karnataka State.

IV. METHODOLOGY OF THE STUDY

The present study is based on secondary sources of data consisting of government publications, namely Indian Economic Survey, RBI reports, Government of Karnataka's Economic Survey, and Reports of Committee on financial inclusion etc. Regression analysis, Percentage, compound growth rate, ratio, and percentage were used to analyse the secondary data.

V. ANALYSIS AND FINDINGS

Status of Financial Inclusion in Karnataka State in comparison to National average

In order to study the status of financial inclusion in Karnataka researcher has used many indicators of financial inclusion namely Number of scheduled Commercial Bank branches per 1000 sq. km, Number of SCB per 100000 People, Number of SCB accounts per 1000 Persons, Credit-Deposit Ratio in comparison to India.

5.1 Scheduled Commercial Bank Branches per 1000 sq.km

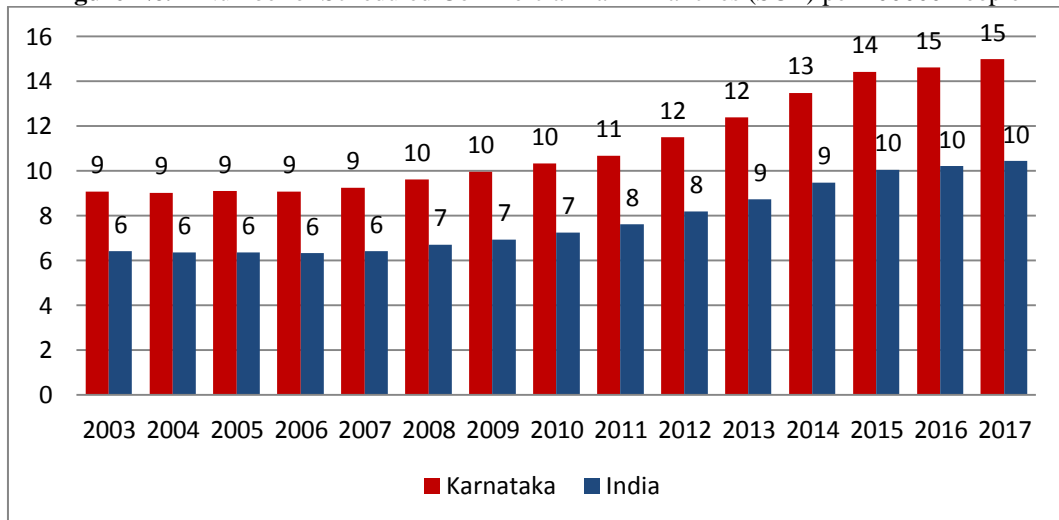Table No. 1 No. of Scheduled Commercial Bank (SCB) branches per 1000 sq.km.

Year	Karnataka	India
2003	25.74	20.71
2004	26.03	20.88
2005	26.66	21.29
2006	26.99	21.53
2007	27.96	22.27
2008	29.54	23.64
2009	31.02	24.88
2010	32.70	26.45
2011	33.98	28.02
2012	37.21	30.67
2013	40.65	33.24
2014	44.97	36.80
2015	48.83	39.69
2016	50.26	41.02
2017	52.33	42.65
2018	54.13	43.34
2019	55.92	44.43

Source: Compiled from Various reports of RBI

The table no. 1 exhibits the banking penetration in Karnataka state and India during 2003 to 2017. The number of bank branches per 1000 sq.km is a very effective indicator of banking penetration. In 2003, the number of SCB branches per 1000 sq.km was 25.74 in Karnataka and 20.71 in India. It increased to 55.92 in Karnataka and 44.43 in India in 2019. It reveals that during 2003 to 2019 banking penetration gradually increased in Karnataka and India. But the banking penetration gap between Karnataka and India remains the same. This reveals that geographical financial exclusion exists in India relatively to Karnataka. This geographical exclusion results in low banking penetration in India.

5.2 Scheduled Commercial Bank Branches per 100000 People

Figure No. 1 Number of Scheduled Commercial Bank Branches (SCB) per 100000 People

Source: Compiled from Various reports of RBI

No. of scheduled commercial bank branches per 100000 people is an effective indicator of measuring demographical access to financial inclusion. The number of scheduled commercial bank branches per 100000 persons in India is 6.4 which was far less than Karnataka state average of 9.06 in 2003. This reveals that the number of SCB branches per 100000 people is better in Karnataka compared to India's average. In 2017, no. of SCB per 100000 people is 14.97 in Karnataka, and 10.43 in India. There is a marginal increase in SCB per 100000 people in India and Karnataka but the gap between Karnataka and India remains the same. This in turn results in less development of banking culture in India when compared to the Karnataka state.

5.3 Scheduled Commercial Bank accounts per 1000 persons

Table No. 2 Number of Scheduled Commercial Bank (SCB) accounts per 1000 Persons

Year	Karnataka	India
2010	146.52	100.42
2011	149.90	100.43
2012	144.68	108.09
2013	151.06	104.11
2014	174.19	110.65
2015	181.66	113.03
2016	197.82	125.04
2017	202.03	130.45

Source: Compiled from various RBI reports

The table no. 2 depicts the number of scheduled commercial bank (SCB) accounts per 1000 persons in Karnataka State and India. In 2010, the number of SCB accounts per 1000 persons was 146.52 in Karnataka and 100.42 in India. It increased to 202 in Karnataka and 130 all over India in 2017. In Karnataka the number of SCBs accounts per 1000 persons is higher compared to India's average. This indicates that Karnataka state is having more access to banking services when compared to India.

5.4 Credit-Deposit Ratio

Table No. 3 Credit-Deposit Ratio of Karnataka state and India

Year	Karnataka	India
2006	73.8	66
2007	75.9	72.4
2008	76.3	75
2009	78.1	74
2010	77.3	72.6
2011	77.6	73.3
2012	72.7	75.6
2013	71.4	79
2014	71.9	78.8
2015	71	79
2016	67.7	77.1
2017	70.1	78.4
2018	67	73.8
2019	69.7	76.7

Source: Compiled from Various reports of RBI

The table no. 3 exhibits the Credit-Deposit Ratio in Karnataka State and India. Credit-Deposit ratio is one of the indicators of the health of a bank. A very high credit-deposit ratio above a certain limit indicates a pressure on bank resources and capital adequacy issues in bank. In 2003 credit-deposit ratio is 73.8 in Karnataka, and 66 India. Credit-deposit ratio is slightly high in Karnataka compared to India. This indicates that demand for credit is slightly high in Karnataka when compared to its deposit ratio. In 2019 the credit-

deposit ratio is 69.7 percent in Karnataka and 76.7 percent in India. During 2003 to 2019 credit-deposit ratio is marginally   decreased in Karnataka state and moderate increase in national average.

5.5 Progress of Regional Rural Bank in Raichur, Karnataka and India

Table No. 4 Number of Regional Rural Banks (RRB) in Raichur, Karnataka & India

Year	Karnataka	Growth rate	India	Growth rate
2006	1120	-	14372	-
2007	1128	0.71	14422	0.35
2008	1151	2.04	14558	0.94
2009	1177	2.26	15010	3.10
2010	1197	1.7	15303	1.95
2011	1213	1.34	15658	2.32
2012	1272	4.86	16170	3.27
2013	1325	4.17	16985	5.04
2014	1472	11.09	17901	5.39
2015	1621	10.12	19472	8.78
2016	1652	1.91	20416	4.85
2017	1742	5.45	21251	4.09
2018	1778	2.07	21805	2.61
CAGR	-	4%	-	4%

Source: Deposits and Credit of SCB, 2006-2018, RBI

The table no. 6 exhibits the details of regional rural banks in Karnataka and India. In 2006, Karnataka share of RRBs is 7.84 percent in the total RRBs in India. During 2006 to 2018 number of RRBs increased to 1778 in Karnataka and 21805 in India. The share of Karnataka in total RRBs in India slightly increased from 7.84 percent in 2006 to 8.15 percent in 2018.

The growth rate is very slow during 2006 to 2018 in Karnataka and India. The CAGR is 4% in Karnataka & 4% in India respectively to Karnataka, & India. This reveals that RBI is not giving priority to establish more number of RRB and rather it is stressing on branchless banking in India.

5.6 New Commercial Bank branches opened in Karnataka

Table No. 5 Area wise distribution of new commercial bank branches opened in Karnataka

| Year	Rural	Semi-urban	Urban	Metropolitan	Total
2005-06	12(9.52)	15(11.90)	40(31.75)	59(46.83)	126
2006-07	20	34	48	61	163
2007-08	23	64	77	103	267
2008-09	27	81	56	100	264
2009-10	46	103	96	131	376
2010-11	93	106	57	76	332
2011-12	226	160	101	101	588
2012-13	211	156	87	96	550
2013-14	388	192	159	140	879
2014-15	242	171	112	138	663
2015-16	149	111	87	146	493
2016-17	88	104	92	156	440
Total	1525(29.66)	1297 (25.23)	1012 (19.68)	1307 (25.42)	5141

Source: Compiled from Various reports of RBI

The table no. 7 depicts the area wise number of commercial bank branches opened in Karnataka. In 2005-06 there are 9.52 percent of branches working in rural areas, 11.9 percent in semi-urban areas, 31.75 percent urban areas and 46.83 percent of commercial bank branches working in Metropolitan areas. This reveals that commercial banks are more concentrated in metropolitan area (46.83percent), urban area (31.75 percent) and have neglected rural and semi-urban areas in 2005-06.

In 2016-17, 29.66 percent of commercial banks were established in rural areas, 25.42 percent of branches were established in Metropolitan areas, 25.23 percent of braches established in semi-urban areas and 19.68 percent of the branches were established in urban areas in Karnataka. This reveals that the distribution of establishing commercial bank branches has improved a lot and more importance is given to rural and semi-urban areas where financial exclusion is more.

5.7 New Commercial Bank branches opened in Karnataka

Figure No. 2 Area wise distribution of Commercial Bank Branches in Karnataka
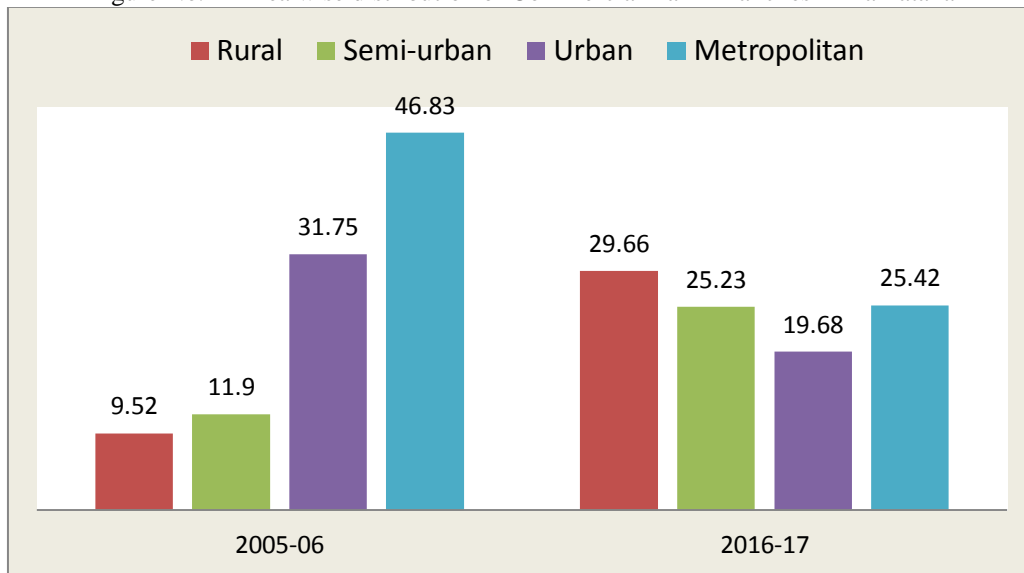
Source: Derived from table no. 3.8

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5.8 Regression Model:

The review on the literature confirms that the number of bank accounts depends on the availability of bank branches within the nearby locality. In order to test this regression model has been farmed for the period of 2010 – 2017 is expressed as follows

$$Y_t = \alpha + \beta X_t + \epsilon_t \qquad (1)$$

The equation (1) in the log form is given as follows

$$InY_t = \alpha + \beta InX_t + \epsilon_t \qquad (2)$$

In the equation (2), Y represents the bank accounts per 1000 population and X represents the bank branches per 1000 square kilo meter. Since the equation (2) is linear in parameter, the model is estimated by using OLS method.

Table No. 6 Regression Results

Coefficients and Statistics	Karnataka	India
α	1.0707	1.3025
Std. Error	0.1785	0.1449
t value	5.9980	8.9866
P value	0.0010**	0.0001**
β	0.7098	0.4838
Std. Error	0.1098	0.0943
t value	6.4611	5.1322
P value	0.0007**	0.0022**
R Square	0.8743	0.8145

Adjusted R Square	0.8534	0.7835
F value	41.7464	26.3393
P value	0.0007**	0.0022**

The regression model results show the estimated parameters and regression statistics in the equation (2). The regression model of bank accounts per 1000 population on bank branches per 1000 square kilo meter in Karnataka and India is statistically significant at 5% Since the p value of the F statistics of the model is lesser than 0.05. The regression coefficients (β) of bank accounts per 1000 population on bank branches per 1000 square kilo meter in Raichur, Karnataka and India are also statistically significant at 5%.

The regression coefficient of India is 0.4838, which is lower than Karnataka (0.7098). Therefore, on an average, every one percentage increase in bank branches per 1000 square kilo meter on an average, leads to increase in bank accounts per 1000 population by 0.7098% in Karnataka. Whereas in India on an average, every one percentage increase in bank branches per 1000 square kilo meter on an average, leads to increase in bank accounts per 1000 population by 0.4838%.

VI.   FINDINGS OF THE STUDY

1.   Commercial bank branches established pattern in Karnataka reveals that in 2005-06 commercial bank branches were more concentrated in metropolitan and urban areas. But during 2016-17, there is a shift of importance from metropolitan city and urban area to semi-urban and rural area.

2.   In 2003, number of SCB branches per 1000 sq.km is 25.74 in Karnataka and 20.71 in India. It is increased to 55.92 in Karnataka and 44.43 in India in 2019. It reveals that during 2003 to 2019 banking penetration gradually increased in Karnataka and India. But banking penetration gap between Karnataka and India remains the same.

3.   In 2010, number of SCB accounts per 1000 persons is 146.52 in Karnataka and 100.42 in India. It increased to 202 in Karnataka and 130 all over India in 2017.

4.   In 2019 the credit-deposit ratio is 69.7 percent in Karnataka and 76.7 percent in India. During 2003 to 2019 the marginal decrease in credit-deposit ratio in Karnataka state and moderate increase in national average.

5.   In 2006, 1120 and 14372 RRB branches were working respectively in India. Karnataka share of RRBs is 7.84 percent in the total RRBs in India. During 2006 to 2018 number of RRBs increased to 1778 in Karnataka and 21805 in India. During 2006 to 2018 periods Karnataka share in total RRBs in India increased from 7.84 percent to 8.15 percent.

6.   The growth rate of RRB is very slow during 2006 to 2018 in Karnataka and India. The CAGR is 4% in Karnataka, & 4% in India respectively. This reveals that RBI is not giving priority to establish more number of RRB and rather it is stressing on branchless banking in India.

1.   In 2010 there were 34174 banking outlets working through BC, which is 50.48 percent of the total banking outlets in India. In 2018 the number of banking outlets through BC increased to 515317, which is 90.48 percent of the total banking outlets. Here there is an addition of 481143 BC outlet. This reveals that the shares of BC outlets were increased from 50.48 percent to 90.48 percent of total banking outlet from 2010 to 2018. This reveals that business correspondent model is highly successful and has helped to attain higher financial inclusion.

2.   In 2010, the number of banking outlets through branches increased from 33378 to 50805. But the relative shares of banking outlets reduced drastically from 49.31 percent to 8.92 percent.

VII.   CONCLUSION

The present programme of financial inclusion has fairly included the majority of households into the banking system, by opening the savings accounts. But the efforts should continue to spread the fruits of financial inclusion to all the districts of Karnataka, especially Raichur, Gulbarga, Yadgir, Koppal etc Hyderabad Karnataka districts were low income group and vulnerable groups of the people were living in larger proportion.

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