

# Financial Inclusion Strategies: Progress in Dakshina Kannada District

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**Abstract:** *Indian economy has travelled a long path of economic development but the aftermaths show that benefits pertaining to this have hardly reached 50% of the Indian population mainly because of no access to loan and insurance. These factors necessitate the urgent need for financial inclusion. Financial inclusion revolves around deposit mobilization and credit intermediation to a wider section of population and is considered to be an integral part of inclusive growth process and sustainable development. Financial inclusion is believed to bring in socio economic impact on the lives of the vulnerable. Banks play a major role in providing various financial services. Irrespective of various supply side issues, in the recent past financial inclusion progress has been remarkable. Therefore this paper evaluates the strategies adopted in Dakshina Kannada District and the Progress of these strategies.*

**Keywords:** Financial Inclusion, Poverty Reduction

## 1. Introduction

Financial development reduces income inequality and exerts a disproportionately positive impact on the bottom quintile (AurelieLarquemin, 2015). In the recent past, financial inclusion has emerged as the buzzword in the Indian financial system. In the zeal to drive the policy initiative in a mission mode, banks have collaborated with Business Correspondents to extend the formal banking services to regions and people who remained unbanked even after six decades of independence of the country(RBI Monthly Bulletin July, 2013). The process of financial inclusion plays a major role in driving a way the poverty from the country. Financial inclusion refers to delivery banking services to masses including privileged and disadvantaged people at an affordable and inexpensive terms and conditions. The three main facets of financial inclusion are (i) financial market accessibility (ii) credit market accessibility (iii) awareness of financial matters (Dr. NamitaRajput &Ms Shelly Oberoi).

Meaningful financial inclusion hinges on four critical parameters (a) all adults in each family have an operative bank account through which regular credits and withdrawals take place; (b) providing small overdraft/credit facilities to the people who need it; (c) providing remittance services through the banks and (d) providing micro insurance through the banks (RBI Monthly Bulletin July ,2013).

In order to accelerate greater financial inclusion RBI and Government of India has implemented various strategies such as No frills accounts/Basic savings bank account-savings and deposits, Overdraft facility in BSBA accounts, General credit cards, Kissan credit card, Micro-insurance, Credit –consumption and business, ICT accounts-BC, Self-help groups, financial literacy programmes and many more such initiatives. This paper evaluates some of these strategies to understand the progress of financial inclusion in Dakshina Kannada District.

## Objectives

- To study the need and importance of financial inclusion.
- To analyse the progress of financial inclusion in India.
- To study the progress of financial inclusion in Dakshina Kannada District.
- To suggest steps for further implementation of financial inclusion strategies.

## 2. Literature Review

A growing number of randomized evaluations suggest that financial services do have a positive impact on a variety of microeconomic indicators, including self-employment business activities, household consumption, and well-being(AurelieLarquemin, 2015). Well-functioning financial systems serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs—and small enterprises must rely on their limited earnings to pursue promising growth opportunities. This can contribute to persistent income inequality and slower economic growth (CGAP, 2006).Greater access to financial services and increased incomes allow poor people to invest in their children’s future.Access to financial services allows clients to seek health care services when needed, rather than wait until an illness has reached crisis proportions.The ability to borrow, save, and earn income enhances poor women’s confidence, enabling them to better confront systemic gender inequities.(CGAP- Poor and Low-Income Clients, 2006).

However, the recent efforts taken by the commercial banks towards financial inclusion have been mostly associated with the opening of bank accounts for individuals who previously did not own one. A broader idea of financial inclusion should focus on increasing the productivity of vulnerable groups and ensuring sustainability in the long run. This means that banks should go beyond bank accounts and credit—they need to tap into savings and additional income to reduce risk and to help smoothen consumption,

while simultaneously trying to increase asset values (Lakshmi Kumar and G. Balasubramanian, 2015). A recent Reserve Bank Research Project Study titled "How the Poor Manage their Finances: A Study of the Portfolio Choices of Poor Households in Ernakulam District, Kerala" has observed that meaningful financial inclusion of the poor by the commercial banks would critically depend on their ability to meet the credit gaps of the poor households.

The Reserve Bank expects the level of banking sector engagement at the grass-root level is increased and higher levels of economic & financial activities through the banking system are facilitated even if it involves low-ticket business. This may provide more meaning to the spirit of financial inclusion than the statistics of financial inclusion (RBI Monthly Bulletin July, 2013).

### 3. Recent Financial Inclusion Initiatives

Learning from the experience gained from the outcomes of FI initiatives over the years, the Reserve Bank has taken certain additional steps to provide greater impetus to the process of financial inclusion.

- Banks are encouraged to adopt a structured and planned approach to financial inclusion with commitment at the highest levels, through preparation of Board approved Financial Inclusion Plans (FIPs). The first phase of FIPs was implemented over the period 2010- 2013. The Reserve Bank has sought to use the FIPs as the basis for FI initiatives at bank level through certain measures:
- Banks advised to prepare Board approved FIPs for the period 2013-2016.
- RRBs also advised to prepare comprehensive FIPs, consequent to their migration to CBS in 2011.
- In order to ensure closer monitoring of FI performance of bank branches, banks have been advised to disaggregate their FIPs up to controlling office and branch level.
- Structured, comprehensive monitoring mechanism put in place by the Reserve Bank for evaluating banks'

performance against their FIP plans. Annual review meetings are being held with CMDs of banks to ensure top management support and commitment to the FI process.

- In the Annual Policy Statement for 2013-14, banks have been advised to consider frontloading (prioritising) the opening of branches in unbanked rural centres over a three year cycle co-terminus with their FIPs. This is expected to facilitate the branch expansion in unbanked rural centres.
- After successful achievement of the target of ensuring provision of banking services through a banking outlet in every village with population above 2000 by March 2012, SLBCs were advised to prepare a road map for provision of banking services in all unbanked villages with population below 2000 in a timebound manner. Under the road map, SLBCs have identified about 4,85,000 unbanked villages with population less than 2000 and the same have been allotted to banks.
- An integrated approach has been adopted for achieving financial inclusion through financial literacy. Financial Literacy Centres and rural branches of scheduled commercial banks have been advised to conduct outdoor Financial Literacy Camps at least once a month.
- In order to ensure smooth roll out of the Government's Direct Benefit Transfer (DBT) initiative, banks have been advised to:
- Open accounts of all eligible individuals in camp mode with the support of local government authorities. Seed the existing and new accounts with Aadhaar numbers and put in place an effective mechanism to monitor and review the progress in implementation of DBT.
- Emphasis is on increasing the proportion of brick and mortar branches vis-a-vis BC outlets (RBI Monthly Bulletin July, 2013).

### 4. Progress of Financial Inclusion

Particulars	Year Ended 2010	Year Ended 2013	Year Ended 2014	Progress 2013-2014
Total No. of Villages Covered	67,694	2,68,454	3,83,804	1,15,350
Villages covered through branches	33,378	40,837	46,126	5,289
Villages covered through BC's	34,316	2,27,617	3,37,678	1,10,061
Basic savings Deposits A/C through branches (No. in Million)	60.2	100.8	126.0	25.2
Basic savings Deposits A/C through branches (Amt. in Rs. Billion)	44.3	164.7	273.3	108.6
Basic savings Deposits A/C through BC's (No. in Million)	13.3	81.3	116.9	35.7
Basic savings Deposits A/C through BC's (Amt. in Rs. Billion)	10.7	18.2	39.0	20.7
BSBDAs Total (No. in million)	0.2	4.0	5.9	2.0
BSBDAs Total (Amt. in Rs. billion)	55.0	182.1	243.0	60.9
OD Facility availed in BSBDAs (No. in million)	55.0	182.9	312.3	129.3
OD facility availed in BSBDAs (Amt. in billion)	0.1	1.6	16.0	14.5
KCCs (No. in million)	24.3	33.8	39.9	6.2
KCCs (Amt. in Rs. Billion)	1240.1	2423.0	3684.5	1061.5
GCCs (No. in million)	1.4	3.6	7.4	3.8
GCCs (Amt. in Rs. Billion)	35.1	76.3	1096.9	1020.6
ICT A/c's -BC Transaction (No. in million) -During the year	26.5	250.5	328.6	328.6
ICT A/c's -BC Transaction (Amt. in Rs. billion)-During the year	6.9	233.9	524.4	524.4

Source: Report on Trend and Progress of Banking in India for the year ended June 30, 2013

## 5. Progress of Financial Inclusion in Dakshina Kannada District

Dakshina Kannada District which is also known as the —Cradle of Banking” has average population of 5000 per Branch. The total number of Banks in the District are 44 Banks (40 Commercial Banks, one RRB, one DCCB, KASCARD and KSFC) having 527 branches. There are 117 PACS having 266 Branches which are affiliated to SCDCC Bank.

S. No.	Agency	Total number of Banks	Total number of Branches			
			Rural	Semi-Urban	Urban	Total
1	Public Sector Banks	25	159	87	171	417
2	Private Sector Banks	15	3	16	24	43
3	KVGB (RRB)	1	13	5	5	23
4	SCDCC	1	23	10	5	38
5	KASCARD	1	0	4	1	5
6	KSFC	1	0	0	1	1
	Total	44	198	122	207	527

Source: Lead Bank records

### The Growth in the Business of Banks in the District during 2011-12, 2012-13 and 2013-14(Up To 30.06.2013)

Parameter	Position as on			
	31.03.2011	31.03.2012	31.03.2013	30.06.2013
Aggregate deposits	1658502	2126880	2372924	2637888
Aggregate Advances	941254	1107415	1340281	1419172
Credit/ Deposit Ratio	56.80	53.50	56.48	53.80
Priority Sector Advances	559121	623300	840800	817000
Agricultural Advances	186098	229200	280700	293100

Source: Lead Bank records

Total Priority Sector Advances at Rs.8170 Crore accounted for 58% of the total advances. Except for DRI advances which stood at 0.01% of the loans outstanding as on June 30, 2013, the District has achieved the targets under various sub-sectors of the Priority Sector. The District is one among those identified as Minority Concentration Districts by the Central Government. Advances to minority communities at Rs. 2072 Crore constituted 25% of the PSA as against the target of 15%.

#### Financial Inclusion Strategies

Financial Inclusion Initiatives	Progress as on March 31,2013	
	No.	Outstanding amount (Rs. in lakhs)
No. Frills Account operationalised	319523	-
Kisan Credit Card (KCC)	162969	154026
General Purpose Credit Card (GCC)	33781	7227

Source: Lead Bank records

The Bank branches in Dakshina Kannada have issued 77984 KCC to farmers during the year from 01.04.2013 to 30.06.2013 which includes renewals. The branches have also issued 13807 General Credit Cards (GCCs) amounting to 2761 lakhs as on 30.06.2013.

#### Self Help Groups as on 31, March 2013, Rupees in lakh

Total No of SHGs in the District	59373
Number of women enrolled	449360
Out of which SC/ST	22453
Number of SHG completed 6 months	56170
Number of SHGs graded	56170
Savings Mobilized	7949
Number of SHGs covered under SGSY during 2012-13	186 Bank credit- 714.29
No of SHGs covered under other schemes during 2012-13	64 Bank credit- 255.78

Source: Lead Bank records

#### Bank coverage position as on 30.06.2013:

All the Unbanked Villages (170) with more than 2000 population are fully covered in the District during the first Phase of Financial Inclusion either by Brick & Mortar (Branch) or BC Model. During the second Phase of Financial Inclusion, out of 90 Villages with less than 2000 population, Banks in the District have already covered 78 Villages and the remaining Villages will be covered in a phased manner as per the Action Plan submitted to RBI (Source: Lead Bank records).

#### Financial Literacy and Credit Counselling Centre

A Trust called —Jnana Jyothi Financial Literacy and Credit Counselling Trust (JJFLCC) with Headquarters at Manipal has been formed jointly by Syndicate Bank, Vijaya Bank and Karnataka Bank Ltd. to take up Financial Literacy and Credit Counselling activities by establishing FLCC s in all the Lead Districts of the sponsor Banks. So far, 18 FLCCs have been opened by JJFLCC Trust in Karnataka. In Dakshina Kannada district, the JJFLCC Trust has 3 FLC centres operating in Mangalore, Bantwal and Belthangady taluks (Source: Lead Bank records).

## 6. Suggestions

In pursuit of financial inclusion, quantity has, however, become the more important factor than the quality. Banks might focus on opening of more and more accounts without really looking into the quality of associated services and perhaps and more often without focusing on the need of raising the awareness levels of the financially excluded. Banks need to understand the demand side issues in particular regions , so that appropriate strategies can be implemented. Banks should strive to raise the level of customer service and enhance the awareness for electronic payment system products in pursuit of providing easy & efficient access to financial services with the aim to move towards a less-cash economy.

## 7. Conclusion

India faces several macro-economic challenges influenced by both global and domestic developments. The Reserve Bank attaches a lot of significance to the role of banks, due to the magnitude of challenges. There is also tremendous scope for the banks to convert these challenges into opportunities for their sustainable business growth. Banks will have an important role in providing impetus to the domestic growth drivers and ease supply constraints. Qualitative dimensions of financial inclusion also should receive serious attention of the banks so that efforts made in this regard result in enduring relationship with the bottom of the pyramid customers and sustainable business proposition for the banks.

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