

A STUDY ON LEVEL OF FINANCIAL INCLUSION IN KERALA

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Abstract

Financial inclusion is defined as the process of ensuring access to financial services by providing timely and adequate credit to vulnerable groups such as weaker sections and low income groups at an affordable cost (GOI, 2008). Kerala is one of the top scoring states on CRISIL inclusix score and Alapuzha, Ernakulam, Kottayam, Pathanamthitta and Thrissur districts had CRISIL inclusix score of 100 and ranks first (CRISIL, 2018). Ernakulam and Wayanad rank first and last respectively in number of bank branches, credits and deposits. Wayanad and Pathanamthitta had reported highest and least credit-deposit (CD) ratio respectively and for deposits Kerala recorded 13.52 per cent annual growth rate (GOK, 2017). Government of Kerala, Kerala IT mission and Kerala Gramin Bank along with the support of CSC (Common Service Centres) had launched the kiosk banking, Akshaya centres.

Key words: CAGR (Compound Annual Growth Rate), CD (Credit-deposit ratio), CRISIL (Credit Rating Information Services of India Limited), CSC (Common Service Centres) and RRB (Regional Rural Bank)

Introduction

Financial inclusion is defined as the process of ensuring access to financial services by providing timely and adequate credit to vulnerable groups such as weaker sections and low income groups at an affordable cost (GOI, 2008). The financial services include savings, loans, payments, remittance facilities and financial counselling or advisory services by the formal financial system. Process of financial inclusion contains mainly three steps and they are financial literacy, opening a bank account and delivering financial services. Adequacy, availability, awareness, affordability and accessibility to the financial services are the principles of financial inclusion. Factors affecting access to financial services are psychological and cultural barriers, legal identity, level of income, various terms and conditions by financial institution, structural procedural formalities, limited literacy, place of living, social security payments, occupation and attractiveness of product.

Kerala is one of the states with highest level of financial inclusion with a population of over three crores with 7,332 commercial bank branches, more than four lakhs deposit accounts, more than two lakhs credit accounts. The credit-deposit ratio (CD) was 59.71. Kerala is one of the top scoring states on CRISIL inclusix score and Alappuzha, Ernakulam, Kottayam, Pathanamthitta and Thrissur districts had CRISIL inclusix score of 100 and ranked first (CRISIL, 2018). For the number of Kisan Credit Cards issued, Kerala recorded compound annual growth rate (CAGR) of 3.03 per cent which is lower than all India (13.74 per cent), whereas for the amount sanctioned the performance of Kerala state was better (22 per cent per annum) compared to all India (18 per cent per annum) (Kshama, 2018).

Government of Kerala, Kerala IT mission and Kerala Gramin Bank along with the support of CSC (Common Service Centres) had launched the kiosk banking, Akshaya centres. It was started as a pilot project in Malappuram district on 18th November 2002 later it was extended to all districts. It provides banking services of different banks, digital literacy/ e-literacy and improves public service delivery system. Currently, there are about 157 Akshaya service centres in Kerala.

Materials and methods

The objective of this paper is to evaluate the progress of financial inclusion in Kerala. The study is based on secondary data which was collected from the reports of the Government of Kerala (Economic Review), the NABARD and the Government of India. Number of branches of commercial banks, deposits, credits and CD ratio were used to assess the trends of financial inclusion in Kerala. Simple analysis tools such as percentage analysis, tabular analysis and CAGR (Compound Annual Growth Rate) were used for calculations.

Bank branches

Bank branch density is higher in Kerala, there is about 7,332 bank branches. The number of public sector bank branches (47.79 per cent) was more compared to that of the private sector banks (28.94 per cent), Co-operative banks (13.42 per cent), RRBs (8.59 per cent) and small finance banks (1.25 per cent). Table 1 represents the banking profile of Kerala in 2018. More than half per cent of bank branches were situated in the semi-urban area (62.41 per cent) followed by the urban (31.11 per cent) and the rural area (6.48 per cent). In the case of the rural area, number of the public sector bank branches (39.28 per cent) was more compared to that of the private sector bank (29.26 per cent), co-operative banks (24.63 per cent), RRBs (10.74 per cent) and small finance bank (4.84 per cent) branches. In the semi-urban area more than half per cent of the bank branches were public sector

banks (53.82 per cent) followed by the private sector banks (32.63 per cent), RRBs (11.8 per cent), small finance banks (1.14 per cent) and Co-operative bank (0.61 per cent) branches. In the case of the urban area, number of the public sector bank branches (30.53 per cent) was more compared to that of the co-operative banks (36.78 per cent), private sector banks (21.48 per cent), RRBs (1.71 per cent) and small finance banks (0.75 per cent) branches.

Table 1: Banking profile of Kerala (2018)

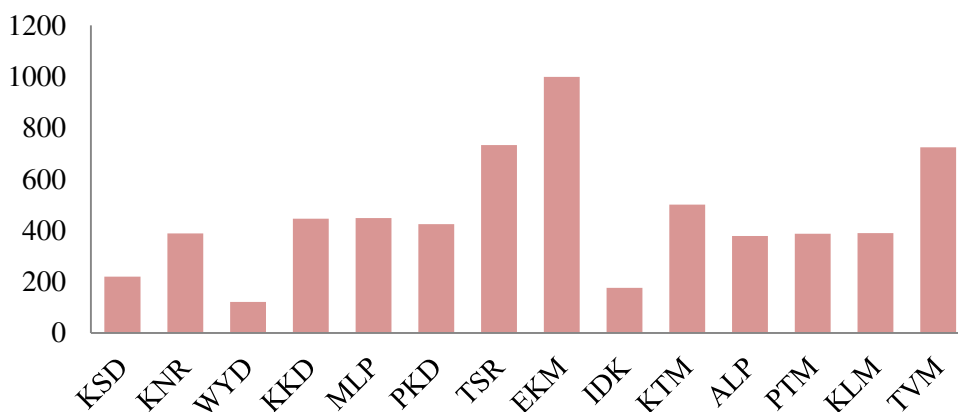
Bank branches	Number of bank branches			
	Rural	Semi-urban	Urban	Total
Public sector banks	145 (30.53)	2463 (53.82)	896 (39.28)	3504 (47.79)
Kerala Gramin banks (RRB)	51 (10.74)	540 (11.8)	39 (1.71)	630 (8.59)
Private sector bank	139 (29.26)	1493 (32.63)	490 (21.48)	2122 (28.94)
Small finance banks	23 (4.84)	52 (1.14)	17 (0.75)	92 (1.25)
Co-operative bank	117 (24.63)	28 (0.61)	839 (36.78)	984 (13.42)
Total	475 (100)	4576 (100)	2281 (100)	7332 (100)

Source: GOK, 2019

Note: Figures in parenthesis indicates the per cent to respective total.

Ernakulam and Wayanad ranked first and last respectively in the number of bank branches, credits and deposits (Figure 1).

Figure 1: Number of bank branches in kerala

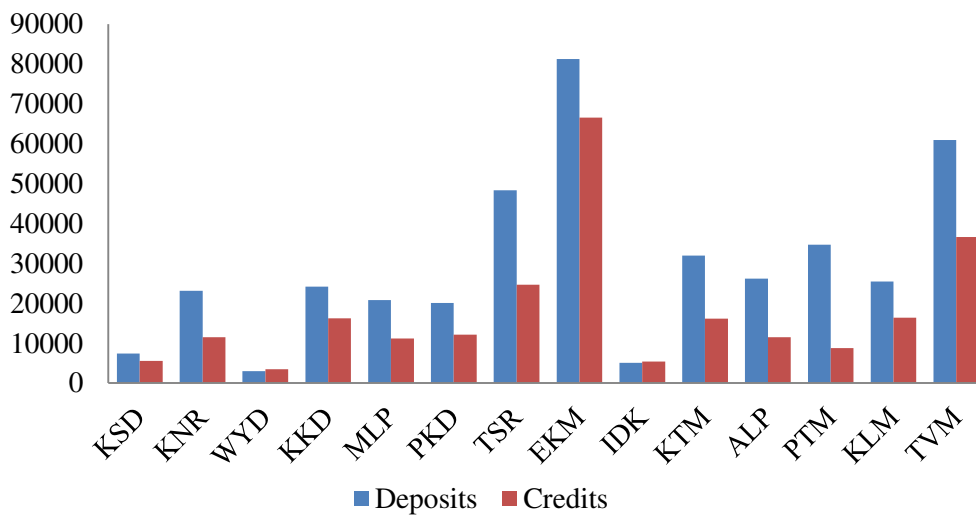


Source: GOK, 2018

Number of credits and deposits in kerala

Eranakulam had highest number of deposits and credits, whereas Wayanad has lowest number of credits and deposits (Figure 2).

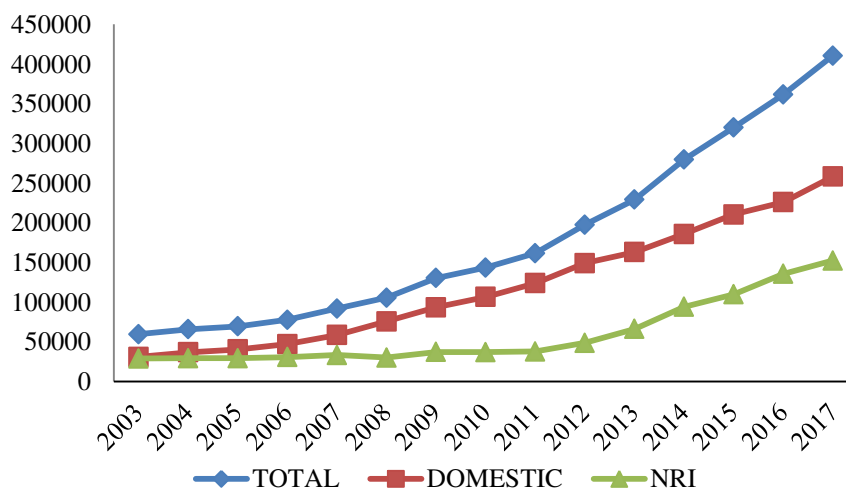
Figure 2: Number of credits and deposits in kerala



Source: GOK, 2018

The number of total deposits, domestic and NRI deposits had an increasing trend from 2003 to 2017 (Figure 3). The CAGR of the total deposits were 1.157 and domestic and NRI deposits had equal CAGR (1.00) during 2003-17.

Figure 3: Number of deposits in Kerala

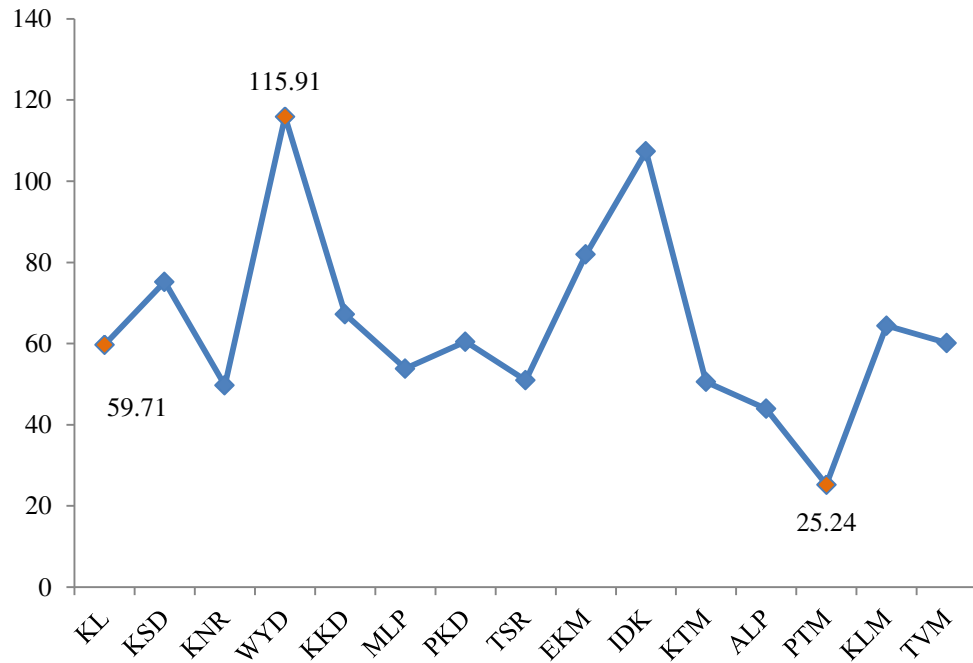


Source: GOK, 2018

Credit-Deposit (CD) ratio of Kerala

The CD ratio of Kerala during 2017 was about 59.71(Figure 4). Wayanad and Pathanamthitta had reported highest and lowest credit-deposit (CD) ratio respectively (GOK, 2018).

Figure 4: Credit-Deposit (CD) ratio of Kerala



Source: GOK, 2018

Conclusions

Financial inclusion assumes greater importance in Kerala. Financial inclusion is defined as the process of ensuring access to all financial services to the entire population. The number of bank branches in the rural area was less compared to that of the urban and the semi-urban area hence measures to increase the number of bank branches in the rural area have to be taken. Wayanad district in Kerala had less number of bank branches, deposits and credits hence strategies to improve the level of financial inclusion in Wayand have to be considered. Broadening access to financial services and encouraging use of financial services for economic and social well-being will enable in reaching the goal of financial inclusion. RBI and banks should coordinate with different educational institutions, to include financial inclusion as a mandatory subject at different levels of educational

right from school to higher levels of education, so that the next generation of students become aware of the significance of nurturing good loan repayment culture and the society becomes digitally savvy.

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