

## The Efficacy of Bank Led Model to Reach the Unreached: A Case Study of Mysore Taluk

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### **Abstract**

*Financial exclusion is a global phenomenon. Every country, through financial inclusion, wants to reduce poverty and socio-economic inequality and make use of the hidden potential of a vast majority of people. Government of India and Reserve Bank of India attach much importance to financial inclusion as a tool to achieve inclusive growth. The present study has been attempted to find out the impact of financial inclusion for the rural households in Mysore taluk in Mysore District in Karnataka. To know the growth of financial inclusion at macro level in Karnataka and at all India for two periods, exponential model was used. It is estimated that higher growth rates were recorded in all the three parameters of financial inclusion in Karnataka for periods I and II than that of at all India level. With regard to impact of social and economic changes on Basic Savings Deposit account holders after the financial inclusion in the study region, the Chi-square test revealed that there is a significant change after the financial inclusion. Therefore, considering the positive changes on new account holders' economic and social fabrication due to financial inclusion at the grossroot level, Government of India and RBI may take further initiative to implement JAN-DHAN YOJANA mission efficiently and effectively to reach the unreached.*

**Keywords:** Financial Inclusion, Scheduled Commercial Banks, Branch Expansion, Deposit Mobilization, Credit Penetration, BSBD Accounts

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## **INTRODUCTION**

India as a strong developing economy, is challenged by disproportionate distribution of income, regional disparity, poverty and unemployment. According to the Planning Commission (2013) in the year ending 2012, there were 269.3 million people (21.9% of the population) living below the poverty line. According to the findings of the 68<sup>th</sup> Round of National Sample Survey Office (NSSO) data, unemployment rate has increased to 10.8 million. More than half the country's wealth is shared by only 10 percent of the population. This situation necessitates inclusive growth. To achieve inclusive social and economic development, financial inclusion is considered as an effective tool. Financial inclusion is the inclusion of poor and marginalized people into the mainstream economy which has positive impact on their lives.

Financial inclusion is a much needed attempt to include hitherto excluded poor, disadvantaged people into formal banking sector. Studies indicate that financial inclusion through banks is an important aspect for not only financial sector development but also a pre-condition for economic growth and poverty alleviation. This is the new area of research interest. Many studies on bank led financial inclusion model are available. But the present study intends to assess the changes from both supply and demand sides. From the supply side; assessment was made by using compound growth rates for two time periods viz., before and after financial inclusion to check the efficacy of financial inclusion. From the demand side; BSBD account holders side, the study try to assess the changes in economic and social condition of financially included people.

### **OBJECTIVES OF THE STUDY**

1. To study growth of financial inclusion in Karnataka and at National level as well
2. To analyze the impact of economic and social improvement on BSBD account holders' after financial inclusion

### **METHODOLOGY**

The study is based on both primary and secondary data. The secondary data was collected from various Reports of Reserve Bank of India (RBI), Karnataka Economic Survey, Minutes of State Level Bankers Committee and other sources. To test the efficacy before and after financial inclusion, the year 2005 is considered as breakthrough year as effective financial inclusion mission took off in that year. To study the performance of efficacy of financial inclusion at all India level as well as in Karnataka, compound growth rates (CGR) for the periods I (1997 to 2004) and II (2005 to 2013) were worked out. The exponential growth model was used to estimate the growth rates for the two periods. The financial inclusion indicators used in the study are branch expansion, deposit mobilization and credit penetration.

To assess the changes in economic and *social* condition after financial inclusion on BSBD account holders, 100 sample respondents were selected at random in Mysore *taluk* of Mysore district in Karnataka. Data was collected by administering a structured questionnaire to the selected respondents to elicit the required information. Since the primary data was categorical in nature, Chi- Square test was employed to draw suitable inference. The study proposed to test two null hypotheses;

$H_0$  : There is no positive growth of banking system after financial inclusion in Karnataka;

$H_0$  : There is no positive impact on economic and social condition of BSBD account holders after financial inclusion.

## RESULTS AND DISCUSSION

### Growth of Efficacy of Financial Inclusion at National and State level

Financial inclusion was effectively implemented as policy measure to achieve inclusive growth. Branch expansion, deposit mobilization and credit penetration are the indicators used to check the efficacy of financial inclusion.

**Table 1: Growth of Financial Inclusion in India**

Year	Branches (No)	Deposit mobilized (in billions)	Credit penetration (in billions)
<b>Period I ( 1997-2004)</b>			
1997	63550	5055.99	2844
1998	64218	5984.85	3299
1999	64939	7140.25	3824
2000	65412	8133.45	4601
2001	65919	9626.18	5384
2002	66190	11033.60	6561
2003	66535	12808.53	7560
2004	67188	15044.16	8804
<b>CGR (%)</b>	<b>0.80</b>	<b>15.40</b>	<b>16.50</b>
<b>Period II ( 2005-2013)</b>			
2005	68365	17001.88	11525
2006	69866	21090.49	15139
2007	72261	26199.33	19470
2008	76256	31969.39	24170
2009	80217	38341.10	28477
2010	85518	44928.26	33452
2011	91156	52079.69	40756
2012	98597	59090.82	46119
2013	105753	67504.54	52605
<b>CGR (%)</b>	<b>5.60</b>	<b>17.20</b>	<b>18.70</b>

**Note :** CGR indicates Compound Growth Rates

#### (a) Growth of Financial Inclusion at National Level

One of the prime moves by the RBI is to expand the banking networks in the country to reach the unreached, particularly, in the rural and semi-urban areas to help the poor to avail the benefits through banking. As a

result of that, serious efforts are being made to open new banking branches all over country, to facilitate deposit mobilization as well as credit penetration. The growth of such financial inclusion for two different periods at all India level is presented in Table - 1.

The growth rate for branch expansion for the period-I was found to be 0.80 percent. However, for the same period, the growth rates for deposit mobilization and credit penetration were estimated to be 15.40% and 16.50% respectively. Deposit mobilization provides enhanced access of banking system for the customers. The high growth rates in deposit mobilization and credit penetration indicate that customers have increasing faith as well as confidence in commercial banks.

With regard to the growth of banking expansion for the period-II, it had registered with 5.60 percent, which is considered as an engine for development of banking system in the later part of the years. Similarly, the other two important financial inclusion parameters such as deposit mobilization (17.20 %) and credit penetration (18.70 %) also showed high growth rates. This was perhaps due to inclusion of the poor and marginalized people at a faster rate; where earlier those may not have been in a position even to deposit and avail credit facilities. Comparing period I and II, the data clearly showed that there has been a tremendous branch expansion in the period II than in period I. With regard to deposit mobilization and credit penetration, growth rates for the period II is marginally higher than the period I, indicating an increasing horizontal growth in the financial inclusion. This has called for banking authorities to evolve suitable policy measures to expand vertical growth in order to provide timely benefits to the unreached.

### **(b) Growth of Financial Inclusion in Karnataka**

In Karnataka too, series of steps are being taken to expand banking networks in rural and semi-urban places to provide adequate banking

facilities to hitherto unreached people. This has helped not only in increasing expansion of banking branches in the state but also provided a platform for poor and marginalized population to develop a habit of using banking facilities. As a result, there is large number of new branches established over the years to meet the increasing demand of customers. The analysis of the growth of financial inclusion in Karnataka, the growth rates for branches, deposit mobilization and credit penetration for periods I and II are presented in Table-2.

**Table 2: Growth of Financial Inclusion in Karnataka**

Year	Branches (No)	Deposit mobilized (in billions)	Credit penetration (in billions)
<b>Period I ( 1997-2004)</b>			
1997	4509	26357	18842
1998	4572	31882	21752
1999	4658	37786	24405
2000	4710	45809	27949
2001	4737	55592	32984
2002	4776	63643	38028
2003	4815	79956	49156
2004	4834	93046	58519
<b>CGR (%)</b>	<b>1.02</b>	<b>18.10</b>	<b>16.10</b>
<b>Period II ( 2005-2013)</b>			
2005	4948	109417	81106
2006	4962	106670	85714
2007	5099	130749	107724
2008	5280	163924	131500
2009	5504	156759	171808
2010	6975	274752	213983
2011	7268	336683	255983
2012	7885	402159	299889
2013	8430	458925	344870
<b>CGR (%)</b>	<b>7.50</b>	<b>20.20</b>	<b>19.60</b>

Note : CGR indicate Compound Growth Rates

Table-2 presents a dismal picture of the growth rate of branch expansion in Karnataka for the period I, registering 1.02 percent, though it is marginally higher than at the all India level. In the case of deposit mobilization, the growth rate (18.10 %) was not only high but even surpassing at all India level (15.40 %). For credit penetration, the growth rate in Karnataka was found to be 16.10 % which is just marginally lower than that of all India level.

During the period II, the growth rates for branch expansion, deposit mobilization and credit penetration were 7.50 percent, 20.20 percent and 19.60 percent respectively. Surprisingly, the growth rates of all the three financial inclusion parameters had showed higher growth rates than at all India level during the period II. This is possibly due to series of efforts made by the banking authorities in the state to promote banking culture among the people. These findings disproved the hypothesis that there is no positive growth of banking system after financial inclusion in Karnataka.

### **Socio and Economic Condition of BSBD Account Holders of Mysore Taluk**

One of the objectives of the study is to assess the impact of financial inclusion on social and economic condition of BSBD account holders in the study region. Therefore, in the following paragraphs, the prevailing social and economic conditions of selected sample households are presented.

The sample of 100 respondents, consisted of 69 percent males and 31 percent females. Among them, 19 percent belong to general category, followed by 36 percent of OBC and 45 percent of SC and ST categories. With regard to educational status of the sample, 46 percent were illiterates; 33 percent had primary education; and 20 percent had secondary level of education. Further, majority of them were farmers (82 percent); while 9 percent and 4 percent of them were working in Government jobs and

Rupa.K.N, Uma H.R.

small business respectively. Among the farmers, about 71 percent were marginal farmers and rest of them, daily wage workers. The income distribution among the sample respondents showed that about 57 percent of them belonged to income group of less than Rs.2000 per month; while 33percent of them belonged to the range of Rs.2000-5000; and only 10 percent of them had more than Rs.10,000 earnings per month. As far as savings are concerned, hardly 6 percent of them had saved around Rs.1000 per month. These findings clearly show that the sample respondents are not only economically poor but also socially very backward in the study region. Perhaps, due to their disadvantaged position, they are totally excluded to get the benefits of banking.

### **Impact on Socio and Economic Condition After Financial Inclusion**

Considering their backwardness both socially and economically in the study region, attempts were made to provide banking facilities to them as it is expected to bring a change in their living and improve their social wellbeing in the long run. Further, the inclusion to formal banking sector itself boosts the confidence level of new account holders. Secured saving facility inculcates saving habit among the account holders. With that they can also avail credit facility in times of need and also to carry out small business activities to improve their economic condition. Saving habit and credit facility improves the economic condition of new account holders. Data on changes after introduction of financial inclusion among the sample respondents are presented in Tables 3 and 4.

**Table 3: Impact on Economic Condition of Respondents After Financial Inclusion**

Response	Physical assets	Owning of land	Live stock	Electronic goods	Vehicles
Affirmative	78	59	55	60	36
Non- Affirmative	22	41	45	40	64

Chi-Sq = 36.737\*\*, DF = 4, P-Value = 0.000

It is interesting to note that among the sample respondents, 78 informed that their physical assets increased after financial inclusion; while 22 had no improvements in their physical assets. With regard to owning of land, 59 were affirmative and rest of them were non-affirmative. It is known that the major source of earnings other than farming would be through livestock in the rural areas. The study reported that 55 opined in favour of financial inclusion to increase in livestock and 45 were non-affirmative. It is also observed that 60 percent of them went on to purchase electronic goods like TV, cellphone etc., after financial inclusion. Similarly, 36 persons had purchased two wheelers for their mobility. The chi-square test further revealed that there is a significant impact on the financial inclusion among the respondents.

**Table 4: Impact on Social Condition of Respondents After Financial Inclusion**

Response	Education Expenditure	Health access	Confidence level	Skills and Empowerment	Risk management	Nutritional status
Affirmative	37	56	64	58	57	57
Non- Affirmative	63	44	36	42	43	43

Chi-Sq = 17.073\*\*, DF = 5, P-Value = 0.004

Like economic changes after introduction of financial inclusion among the sample respondents, it is also intended to assess the impact of social improvements of the respondents after the inclusion of financial instruments. Based on the study, the results are presented in Table 4. It is observed that expenditure on education of their children was not met adequately after financial inclusion in the study region. However, the access to health related issues; they had higher percentage of affirmative opinion (56 %), while 44% were in non-affirmative. One of the important reasons for introduction of such financial inclusion in the rural and semi-urban areas is to create confidence and increase their skill formation in decision making and empowerment. The study showed an increased confidence level (64%);

*Rupa.K.N, Uma H.R.*

skill formation (58%) and empowerment (58%) among the sample respondents. Thus, the findings of the study clearly support the argument that financial inclusion has increased the decision making power of the individuals. Further, the respondents opined that their level of risk management (57%) also increased. Another important finding is that their nutritional status also increased (57%). The empirical findings clearly established the fact that there is a positive change on the social condition of respondents after financial inclusion. The chi-square test showed 1% level of significance. This has disproved the hypothesis that there is no impact on social changes in the sample respondents in the study region.

### **CONCLUSION AND POLICY IMPLICATION**

Financial Inclusion is an attempt to reduce socio-economic problems like income inequality, poverty, unemployment and exploitation. The Government policy on social justice is not only providing equality in social and economic front but also empowering rural households, particularly the marginalized groups, to bring them to the mainstream of economy. In this endeavor, several attempts are being made to connect rural people to access financial inclusion and increase their participatory level. With this view, the present research investigation conducted at the cross-sectional level in Mysore *taluk* of Mysore district, Karnataka has provided clear evidence that there is a positive impact on social and economic status of rural households under the financial inclusion. Therefore, considering the positive changes of rural households due to financial inclusion at the grossroot level, Government of India and RBI may take further initiative to implement *JAN-DHAN YOJANA* mission efficiently and effectively to reach the unreached.

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