Regional Disparities in Financial Inclusion in Kerala: District-Wise Analysis

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Abstract

Though Financial Inclusion efforts can be traced back to 60s the term was explicitly used in India for the first time in 2005-06 when it was recognized as an important policy objective for promoting inclusive growth in the country. It was realized by the policy makers at the time of initiation of 11th Plan that despite persistent efforts to promote balanced regional development the disparities continue to rise in India. There was a widespread perception all over the country that disparities among states, within states, between rural and urban areas and between various sections of the community are steadily increasing in the past few years and that the gains of the rapid growth witnessed in this period have not reached all parts of the country and all sections of the people in an equitable manner. Thus, the 11th Plan laid stress upon promoting inclusive growth which continued to be the main objective of 12th Plan (2012-2017) as well and Financial Inclusion constitute an integral part of inclusive growth. Kerala along with Goa became the first 100% financially inclusive state in terms of opening of bank accounts. This paper is an attempt to measure financial inclusion level of the districts of Kerala by constructing a comprehensive Financial Inclusion Index (FII), incorporating 22 indicators representing three different dimensions of inclusive finance relating to branches, deposits and credit. The study covers 14 districts of the state for the year 2013. The results portray presence of glaring disparities in FII across different districts and 9 out of 14 districts have been found to be financially excluded when volume of deposits and credit is also considered along with number of accounts. Further, the maximum disparities have been found in the indicators pertaining to credit penetration.

Keywords: Financial Inclusion, Disparities, Deposits, Credit, Financial Inclusion Index

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INTRODUCTION

Financial inclusion efforts in India can be traced back to 1960s when the concept of social banking was introduced and 14 major commercial banks were nationalized in 1969 with an aim to convert the banking of classes into the banking of masses. In the early 60s the banking scene was characterized by concentration of banking business in metropolitan and urban areas with the large business houses claiming a major chunk of bank credit resulting into the neglect of priority sectors by the banks. So the banks were nationalized to promote banking services in the unbanked areas to bring about progressive reduction of disparities between the rich and the poor sections of people and between the relatively advanced and backward areas of the country. This phase of social control continued till 1990 and the banking sector experienced a phenomenal growth during this phase both geographically as well as in terms of providing facilities to the neglected sectors. The number of bank branches rose from 8262 in 1969 to 60220 in 1991 showing more than sevenfold increase resulting in significant decline in the population served per branch. A significant outcome of the branch expansion was that of the new branches opened; more than 64% of the new branches were opened in rural areas and only 8 % of the branches were opened in metropolitan areas. Further, the share of priority sector in total credit also rose from 14% to 37.7% over the same period. In 1991, India experienced an exceptionally severe balance of payment crisis and to overcome the same, embarked on the process of economic reforms with the financial reforms constituting an integral part of these economic reforms. The focus of banking policy reforms during the 1990s and up to the mid of the first decade of twenty-first century was more on creating a strong and efficient banking system by introducing competition in the banking sector through deregulations and decontrol. Then, since 2005 onwards the term "financial inclusion" has become an important policy objective and is considered as an important pillar of inclusive growth. Financial inclusion has been identified as a priority sector in the government's efforts to make the growth process more equitable and inclusive. For this Reserve Bank of India has undertaken number of measures to attract financially excluded people into the structured financial system like opening of no-frill accounts, simplification of KYC norms, introducing business correspondent model, mobile banking, financial literacy projects and latest being *Pradhan Mantri Jan Dhan Yojana* (PMJDY) launched by government on 28th August, 2014,which envisages universal access to banking facilities with at least one basic banking account (with zero balance) for every household. On 14th November 2014, Goa and Kerala became the first states in the country to achieve 100 percent Financial Inclusion under *Pradhan Mantri Jan Dhan Yojana* (PMJDY), along with three Union Territories (UTs) namely Chandigarh, Puducherry and Lakshadweep. These were declared as 100 per cent saturated in terms of coverage of all households with at least one bank account.

The state of Kerala has always been in the forefront in terms of executing various financial inclusion policies and plans. The state has experienced a great success in financial inclusion initiatives as compared to other states in India even before the launch of *Pradhan Mantri Jan Dhan Yojana*. CRISIL Inclusix (Vol. III), which measured the financial inclusion levels for 2013, ranked Kerala at the top in terms of financial inclusion amongst the states with Inclusix score of 88.9 (CRISIL Inclusix is measured on a scale of 0 to 100, with 100 indicating the maximum score achievable) and second amongst both states and UTs with Puducherry taking the top slot with a score of 89.4. Further, out of 14 districts, 13 districts appeared in the list of top 50 districts in terms of CRISIL Inclusix scores as depicted in the table below:

Table 1: Ranking of Districts of Kerala as per CRISIL Inclusix for the year 2013

District	CRISIL Inclusix Score	CRISIL Inclusix Rank
Alapuzha	100	1
Ernakulam	100	1
Kottayam	100	1
Pathanamthitta	100	1
Thiruvananthapuram	100	1
Thrissur	100	1
Idukki	90.2	17
Kasaragod	87.1	28
Palakkad	85.4	32
Kollam	85.2	33
Kannur	82.7	38
Wayanad	82.4	39
Kozhikode	81.2	43
Malappuram	64.9	114

From Table 1 it is seen that six districts of the state achieved 100% financial inclusion and were placed on the top. However, an important point to be noted here is that Kerala, as a state may be on the top in terms of financial inclusion but within state, huge disparities continue to exist which is evident from the fact that Malappuram is placed at 114 rank with Inclusix Score of 64.9. Further, a pertinent point here is that CRISIL also has measured deposit and credit penetration on the basis of number of accounts only and did not consider the quantum/volume of deposits and credit into account. CRISIL used the following three dimensions represented by five parameters:

1. Branch Penetration (BP):
    - Number of branches per lakh of population in a district
2. Credit Penetration (CP):
    - Number of loan accounts per lakh of population in a district
    - Number of small borrower loan accounts as defined by RBI per lakh of population in a district (small borrowers = borrowers with a sanctioned credit limit of up to Rs.2 lakh)
    - Number of agricultural advances per lakh of population in a district
3. Deposit Penetration (DP):
    - Number of savings accounts per lakh of population in a district

It is continually being argued by many that there is much more to financial inclusion than merely opening accounts because most of the time, these accounts remain dormant and declaring any region fully financially inclusive merely on the basis of each household having a bank account is not the right approach. There is a mixed reaction towards the *Pradhan Mantri Jan Dhan Yojana* started in August 2014 and it is being debated that the scheme is no different from the earlier scheme "No-frill accounts" under which millions of accounts were opened and which later found to be dormant. According to Rajesh Chakrabarti, Executive Director of the Bharti Institute of Public Policy at the Indian School of Business, the government "seems to be fighting the symptoms rather than the disease. The point is for the formal banking system to be present when needed and be superior in convenience and efficiency. However, the approach taken seems to be to lure people into banking through incentives and to hope that the habit sets in. The trouble is that once the sweetener goes away, day-to-day banking provides little benefit in convenience to many users at the bottom of the pyramid."

S. Thyagarajan & Jayaram Venkatesan conducted a study in 2008 to analyze the results of the no frills financial inclusion drive in Cuddalore district of Tamil Nadu in terms of coverage by geographical and other categories, cost involved in account opening and maintenance as also the transactional usage behaviour of such accounts. The study also showed that only 15 percent of the customers were operating the accounts and bulk of the accounts hadn't even operated once, one year after the completion of the drive. An analysis on the operating accounts showed a steady increase in balances over one year from their account opening date. The study also highlighted that one of the main reasons behind the non-operative accounts was the lack of financial literacy apart from other reasons such as distance from branches, etc.

The high-powered Nachiket Mor committee on Comprehensive Financial Services for Small Businesses and Low-Income Households, set up by the RBI, that submitted its report on 31st December 2013, found that 60% of the rural and urban population did not have a functional bank account. Thus, opening accounts is just the first step. Too often newly-opened accounts remain dormant. In addition, opening dormant accounts does not lead to financial inclusion. It is the usage of these accounts in terms of deposits and credit that provides impetus to the financial inclusion derives.

OBJECTIVES

Looking at the importance of usage of these accounts in terms of money deposited and credit borrowed, it was thought pertinent to prepare a comprehensive Financial Inclusion Index for all the districts of Kerala and see how they fared when volume of transactions carried through these accounts is also taken into consideration. Since, access to credit is the main focus of financial inclusion, so the study prepares a comprehensive district-wise Financial Inclusion Index of Kerala State by taking volume of credit as well as deposits and evaluates the performance of these districts on that basis.

Objectives of the study are:

- To construct district-wise Financial Inclusion Index for Kerala and measure the financial inclusion level of these districts
- To study the extent of variations among these districts in terms of branches, deposits and credit.

METHODOLOGY

The study covers 14 districts of Kerala. Financial Inclusion Index has been developed for the year 2013. The data for the financial indicators has been collected from Banking

Statistics -Basic Statistical Returns published by Reserve Bank of India. In order to standardize the financial variables, the district - wise data for population, area, number of households, workers etc., have been taken from census of India 2001 and 2011. The projections for the year 2013 have been made on the basis of annual growth rate between the two census years. In order to carry a comprehensive study, the following 22 variables representing different facets of inclusive finance have been selected for the study:

Indicators of Branch Penetration:

- Number of branches per lakh of Population (X1)
- Number of branches per 1000 sq. km, of Area (X2)
- Number of branches per Household (X3)

Indicators of Deposit Penetration

- Deposit Accounts per lakh of Population (Number) (X4)
- Deposit Accounts per Branch (Number) (X5)
- Deposit Accounts per Household (Number) (X6)
- Deposits per lakh of Population (Amount) (X7)
- Deposits per Branch (Amount) (X8)
- Deposits per Household (Amount) (X9)
- Deposits per Account (Amount) (X10)

Indicators of Credit Penetration:

- Credit Accounts per lakh of Population (Number) (X11)
- Credit Accounts per Branch (Number) (X12)
- Credit Accounts per Household (Number) (X13)
- Outstanding Credit per lakh of Population (Amount) (X14)
- Outstanding Credit per Branch (Amount) (X15)
- Outstanding Credit per Household (Amount) (X16)
- Outstanding Credit per Account (Amount) (X17)
- Agriculture Credit per Cultivator (Amount) (X18)
- Agriculture Credit per Account (Amount) (X19)
- Non-agriculture Credit per Worker (Amount) (X20)
- Non-agriculture Credit per Account (Amount) (X21)
- Credit-Deposit Ratio (%) (X22)

The FII index has been prepared using distance-from-average method. First, for each indicator, the actual value is divided by the overall average of that indicator,

$$I_q = X^t_{qs} / X^t_{qs*},$$

where

X^{t}_{qs} is the value of indicator *q* for the district *s* at time *t*,

X^{t}_{qs*} is the mean value of indicator *q* for all the districts at time *t*.

$q = 1,2,\ldots,22$

Subsequently, the average of all the indicators gives us the proposed composite index –

$$FII = (\Sigma_q I_q)/22$$

Average for all the districts is 1 and the districts with value > 1 are above average and fall in the category of financially included districts while district with FII < 1 are below average so fall in the category of financially excluded districts.

FINDINGS

Table 2 depicts the FII of 14 districts along with their ranks while Table 3 gives the classification of the number of districts into financially included and financially excluded categories on the basis of Financial Inclusion Index constructed by incorporating 22 indicators as listed above. It is seen from the table that of the 14 districts, only 5 districts are found to be financially included (with index value > 1) on the basis of Financial Inclusion Index which constitute approximately only 36% of the total districts, while 9 districts i.e. 64% are found to be financially excluded. The results clearly show the presence of large-scale intra-state disparities in financial inclusion in Kerala as almost two-third of the districts have been found to be financially excluded. Not only this, the extent of variations is also quite high. The district at the top in terms of financial inclusion is Ernakulam with an index of 1.89 while Malappuram is at the bottom with an index value of just 0.66 which is approximately one third of the district at the top.

Table 2: District-wise Financial Inclusion Index

District	FII	RANK
Ernakulam	1.891446366	1
Thiruvananthapuram	1.43681954	2
Pathanamthitta	1.211960818	3
Thrissur	1.137664148	4

Kottayam	1.106045006	5
Alappuzha	0.959839999	6
Kollam	0.916409834	7
Kozhikode	0.913447259	8
Kannur	0.841140935	9
Palakkad	0.762448177	10
Kasaragod	0.75776835	11
Idukki	0.715596527	12
Wayanad	0.689599411	13
Malappuram	0.65981363	14

Table 3: Classification of Districts on the basis of FII

Level of Financial Inclusion	**Number of Districts**
High Inclusion (FII>1)	5
Low Inclusion (FII<1)	9
Total	14

Table 4: Co-efficient of Variations of Selected Indicators

Dimension	**Variable**	**COV (%)**
Branch Penetration	No. of branches per lakh of Population X1	35.52
	No. of branches per 1000sq. Km of area X2	54.44
	No. of branches per Household X3	30.74
Deposit Penetration	Deposit Accounts per lakh of population X4	25.69
	Deposit Accounts per branch (No.) X5	10.99
	Deposit Accounts per household (No.) X6	21.24
	Deposits per lakh of Population (Rs.In millions) X7	71.12
	Deposits per Branch (Rs.In millions) X8	40.60

	Deposits per Household (Rs. In millions) X9	66.50
	Deposits per Account (Rs. In millions) X10	47.51
Credit Penetration	Credit Accounts per lakh of Pop. (No.) X11	18.92
	Credit Accounts per Branch (No.) X12	20.10
	Credit Accounts per Household (No.) X13	15.14
	Out. Credit per lakh of Population (Rs. in millions) X14	72.29
	Out. Credit per Branch (Rs. In millions) X15	40.36
	Out. Credit per Household (Rs. In millions) X16	69.54
	Out. Credit per Accounts (Rs. In millions) X17	61.82
	Agri. Credit per Cultivator (Rs. In millions) X18	54.67
	Agri. Credit per Accounts (Rs. In millions) X19	26.10
	Non-Agri. Credit per Non-agri. worker (Rs. In millions) X20	83.59
	Non-Agri. Credit per Account (Rs. In millions) X21	63.07
	Credit -Deposit Ratio X22	33.65

Table 4 gives the indicator-wise extent of variations. From the coefficients of variations, it is clear that maximum variations are found in respect of indicators relating to credit penetration. Five indicators relating to credit have coefficient of variation more than 60% namely, Non-Agri. Credit per Non-agri. Worker (COV 83.59%), followed by Out. Credit per lakh of Population (COV 72.29%), Out.Credit per Household (COV 69.54%), Non-Agri. Credit per Account (63.07) and Out.Credit per Account with COV 61.82%. From among the indicators representing deposit penetration, maximum variations are found in respect of Deposits per lakh of Population (COV 71.12%) and Deposits per Household (COV 66.50%). In terms of branch penetration, geographical coverage measured in terms of Number of branches per 1000sq. km of area experienced maximum variations with COV of 54.44%. An important point to be noted here is that in terms of number of accounts least variations are found clearly depicting 100% financial inclusion across different districts of Kerala but lots of variations exists among districts when business transacted through these accounts in terms of deposits and credit is considered as large variations exist in terms of these indicators among the districts.

Table 5: District-Wise Credit-Deposit Ratio

District	FII	RANK	CREDIT-DEPOSIT RATIO (%)
Ernakulam	1.891446366	1	100.07
Thiruvananthapuram	1.43681954	2	66.40
Pathanamthitta	1.211960818	3	31.71
Thrissur	1.137664148	4	66.61
Kottayam	1.106045006	5	65.19
Alappuzha	0.959839999	6	59.15
Kollam	0.916409834	7	74.22
Kozhikode	0.913447259	8	88.19
Kannur	0.841140935	9	67.06
Palakkad	0.762448177	10	75.87
Kasaragod	0.75776835	11	90.39
Idukki	0.715596527	12	129.32
Wayanad	0.689599411	13	131.58
Malappuram	0.65981363	14	68.91

An interesting highlight of the study is depicted by credit-deposit ratio of different districts as given in Table 5. It is seen from the table that except Ernakulam, the district at the top in terms of FII, three of the four financially inclusive districts have a credit-ratio around 65% with Pathanamthitta experiencing the lowest ratio of just 31.71%. The results clearly show that deposit money collected in these developed districts is being mobilized towards other under developed districts for development. However, if we look at the ratio of financially excluded districts, the picture is not very rosy as out of the nine districts, seven districts have credit-deposit ratio below 100%. Thus, major chunk of the deposits is directed towards mainly two districts only namely Wayanad (131.6%) and

Idukki (129.3%). This could be one reason leading to presence of glairing disparities in credit penetration among the different districts as explained above with the help of coefficients of variation. The reasons responsible behind these two districts, eating into the major chunk of funds need to be identified and calls for further in-depth study.

CONCLUSION

Based on the findings of this study, it may be concluded that as far as opening of accounts is concerned, Kerala has experienced little inter-district disparities and has successfully accomplished the initial objective of financial inclusion as recognized by GOI which defines financial inclusion in terms of each household having at least one account in the bank. However, the performance of the state in terms of deposit mobilization and credit disbursement is not very satisfactory as in terms of these indicators, the state is facing lot of variations amongst its districts. Huge disparities exist in terms of access to finance i.e. credit related indicators across the state. No doubt, the state has moved a step forward by achieving 100% financial inclusion in terms of opening the accounts but still a lot needs to be done to motivate the people to use these accounts for depositing money and obtaining credit. Immediate measures are required on the part of the government to recognize the factors that are keeping the people away from operating their accounts productively. Undoubtedly, Kerala is the most literate state but there are many gaping holes in the claims of state reaching 100 percent financial inclusive in India.

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Note: The author is grateful to ICSSR for awarding fellowship to work on the theme of Financial Inclusion