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ROLE OF THE BANKING SECTOR IN ADVANCING FINANCIAL INCLUSION: EVIDENCE FROM INDIA

Dr. Sujo Mary Varghese

ABSTRACT

Financial inclusion is widely recognized as a key driver of economic development and social welfare for marginalized and underserved sections of the society. Poverty often results in significant social and economic inequalities, making it essential to create opportunities for inclusive growth. One effective approach to reducing these disparities is to integrate disadvantaged populations into the formal financial system. Reserve Bank of India and the Government of India introduced financial inclusion initiatives aimed at providing banking and financial services to individuals who were previously excluded from the formal financial sector. Financial inclusion is a key component of inclusive economic development in India, with the banking sector playing a pivotal role in extending formal financial services to the excluded and underserved sections of society. Guided by the policy framework of RBI, several banking sector initiatives have been implemented to enhance access to savings, credit, and payment services. The present study examines the nature of these initiatives and assesses the progress achieved through them over time. The study is based on secondary data collected from publications and databases of the Reserve Bank of India, NABARD, Government of India reports, and the Pradhan Mantri Jan Dhan Yojana portal. Using a descriptive and analytical research design, the study analyzes key indicators of financial inclusion such as banking outreach, deposit mobilization, credit delivery, and payment system expansion. The findings indicate a consistent improvement in the reach of formal banking services thereby promoting financial inclusion. The study provides empirical insights relevant for policymakers, regulators, and banking institutions.

KEYWORDS: Financial Inclusion, Banking Sector Initiatives, Reserve Bank of India, Banking Outreach, Inclusive Growth

1. INTRODUCTION

No Frills account, BSBDA Account and PMJDY accounts were initiatives by the Reserve Bank of India and the Government of India to include the excluded sections into the formal financial sector since ownership of a bank account is the first step to have access to an array of Formal financial services. In an attempt at financial inclusion, the RBI launched the “No Frills” account in 2005. The No Frills account aimed to offer the most basic banking service to those from the low-income backgrounds. The concept was formulated as means of

providing individuals from low-income backgrounds the opportunity to benefit from the credit and savings programs offered by formal financial institutions. It allows its holders the ability to open and maintain a savings account with zero balance. Those who hold No Frills accounts are offered basic banking services such as mobile and internet banking, a free Debit Card and access to ATMs all over the country. In addition, No Frills account holders also have the option to receive free quarterly account statements to their registered email id. In addition, the service charges applicable

to the No Frills account were substantially lower than that of the regular savings accounts. As a result of the zero balance requirements that most banks offered, the account became commonly known as a zero-balance account. However, the title “No Frills” seemed to stigmatise those who hold such accounts. In an attempt to undo the stigmatisation associated with the title, the RBI replaced the title of the account to Basic Savings Bank Deposit Account (BSBDA) in 2012. Therefore, the No Frills account and the Basic Savings Bank Deposit Account are essentially the same. According to an official notification by the RBI, the services offered by BSBDA intend to bring uniformity across the banking system. Since its launch, the RBI has instructed all banks that offered the no-frills accounts to convert existing accounts into Basic Savings Bank Deposit Accounts. This notification also included offering services such as unlimited deposits to the account, zero charges on ATM/debit cards, and no fines for accounts that are inactive. Moreover, the Basic Savings Bank Deposit Accounts do not impose any restrictions on income or age and is available to all Indian residents.

“Swabhimaan” is a path-breaking initiative by the Union Government and the Indian Banks Association to bridge economic gap between rural and urban India. This campaign is a big step towards socio-economic equality by bringing the underprivileged segments of Indian population into the formal banking fold for the first time. The vision for this programme is social application of modern technology. Banking facilities like Savings Bank, Recurring Deposits, Fixed deposits, Remittances, Overdraft facility, Kisan Credit Card (KCCs), General Credit Cards (GCC) and collection of cheques were part of the scheme. The concept was first mooted by the Reserve Bank of India in 2005 and branchless banking through banking agents called Bank Mitras (Business Correspondents) was started in the year 2006. In the year 2001, banks covered 74,351 villages, with population of more than 2,000 (as per 2011 Census), with banking facilities under the Swabhimaan Campaign. However this campaign was limited in its approach in terms of reach and coverage. The campaign focused only on the supply side by providing banking facility in villages of population greater than 2000 but the entire geography was not targeted. There was no focus on the households. A comprehensive plan was felt

necessary to keep the accounts active and use them as an instrument of same economic activity leading to livelihoods which led to the formulation of the flagship programme called Pradhan Mantri Jan Dhan Yojana (PMJDY) on August 28, 2014.

1.1 Significance of the study

The study on banking sector initiatives for financial inclusion is significant as it provides a systematic assessment of the measures undertaken to expand access to formal financial services and evaluates the progress achieved over time. By analyzing the role of the banking sector under the policy framework of the Reserve Bank of India, the study contributes to a clearer understanding of how regulatory and institutional initiatives have influenced the growth and outreach of financial services in the economy. The findings are expected to enrich the existing academic literature on financial inclusion, offer empirical evidence on the effectiveness of banking-led inclusion measures, and support policymakers and financial institutions in refining strategies aimed at achieving inclusive and sustainable economic development.

1.2 Statement of the problem

Financial inclusion has been accorded high priority in India, with the banking sector serving as the principal channel for extending formal financial services to the excluded and underserved sections of society under the guidance of the Reserve Bank of India. Over the years, a variety of banking sector initiatives have been introduced to promote access to savings, credit, and payment services, reflecting a structured and policy-driven approach toward inclusive finance. However, despite the expansion of banking infrastructure and services, there is a need for a systematic and comprehensive evaluation of the measures adopted and the progress achieved through these initiatives over time. The absence of such an integrated assessment makes it difficult to understand the extent, pattern, and effectiveness of banking-led financial inclusion efforts. Against this backdrop, the present study addresses the problem of examining banking sector initiatives for financial inclusion and assessing their contribution to the growth and outreach of formal financial services in the economy.

1.3 Objectives of the study

1. To examine the major banking sector initiatives introduced for promoting financial inclusion under the policy framework of the Reserve Bank of India.
2. To analyse the extent and pattern of financial inclusion achieved through banking sector initiatives in India and specifically in Kerala from 2010 to 2018
3. To assess the progress of key financial inclusion indicators such as banking outreach, deposit mobilization, credit delivery, and payment services.

1.4 Research Methodology

The present study adopts a descriptive and analytical research design to examine banking sector initiatives for financial inclusion and to assess the progress achieved through these measures. The study is based entirely on secondary data, collected from authoritative and institutional sources. Data have been sourced from publications and databases of the Reserve Bank of India, reports of NABARD, Government of India documents such as the Economic Survey and Ministry of Finance publications, CENSUS data, and official data available on the Pradhan Mantri Jan Dhan Yojana (PMJDY) portal. The study covers a defined reference period from 2010 to 2018 to analyze trends and changes in financial inclusion initiatives.

2 RESULTS AND DISCUSSION

2.1 Pradhan Mantri Jan-Dhan Yojana(PMJDY)

In order to provide the much needed thrust, a flagship programme called the Pradhan Mantri Jan-Dhan Yojana (PMJDY) was announced by the Prime Minister Narendra Modi on August 15, 2014. PMJDY was launched on August 28, 2014, across the country simultaneously. PMJDY is a National Mission on financial inclusion. This Mission was envisaged to enable all households, urban and rural, to gain easy and universal access to financial services. PMJDY encompasses an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The Plan envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries have

access to Rupay Debit card having in built accident insurance cover of Rs. 1 lakh. The plan also envisages channeling all Government benefits to the beneficiary's accounts and pushing the direct benefits transfer (DBT) scheme of the Union Government. The technological issues like poor connectivity, online transactions would also be addressed. Also, an effort is being made to reach out to the youth of the country to participate in this Mission Mode Programme.

The Financial Inclusion initiative viz. PMJDY has some important objectives as follows:

1. Universal access to banking facilities
2. Banking accounts with RuPay Debit cards with provision of Overdraft facility
3. Financial literacy programme
4. Creation of credit guarantee fund
5. Micro Finance

In September 2018, new features were introduced in the PMJDY scheme viz. opening accounts from "every households to every adult", raising the overdraft limit to Rs. 10,000 from Rs.5000, overdraft facility upto Rs.2,000 without any condition, and raising accidental insurance cover for new Rupay cardholders from Rs.1,00,000 to Rs.2,00,000 for PMJDY accounts opened after August 28, 2018.

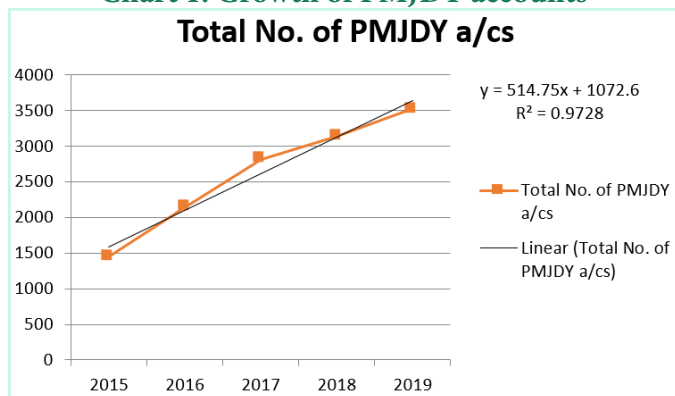
The Pradhan Mantri Jan Dhan Yojana has been able to garner 2089.96 lakh beneficiaries through rural/semi urban centre bank branches, 1436.66 beneficiaries urban centre bank branches and 3526.62 lakh total number of beneficiaries accounts as on March 2019. The details are shown in the table No.1 and the growth rate is shown in Chart 1.

Table 1: Progress in PMJDY

(Number in lakhs)

Year (March)	Number of Beneficiaries at rural/ semiurban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	Number of total Beneficiaries	Deposits in Accounts (in lakhs)
2019	2089.96	1436.66	3526.62	9610735.10
2018	1851.96	1292.43	3144.39	7849399.24
2017	1686.63	1130.15	2816.78	6297242.81
2016	1317.07	825.68	2142.75	3567200.72
2015	867.72	585.96	1453.68	1464064.61

Source: www.pmjdy.gov.in

Chart 1: Growth of PMJDY accounts

Source: www.pmjdy.gov.in

From the chart exhibited above, it is visible that the growth of PMJDY accounts shows a linear trend over the period from 2015 to 2019. The number of

PMJDY accounts increased at a linear rate of 514.7, with a coefficient of determination of 0.972.

2.2 Deposits in Scheduled Commercial Banks

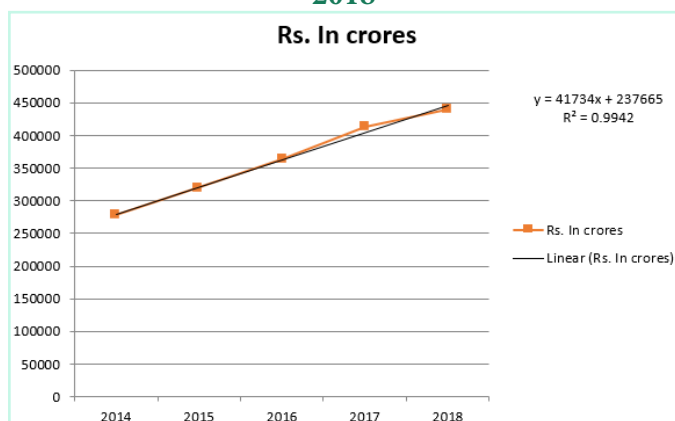
As per the RBI data, the total bank deposits in all scheduled commercial banks (including public sector banks, private sector banks, foreign banks, regional rural banks (RRBs) and small finance banks) in Kerala in March 2018 increased to Rs.4,40,361 crore (6.75 per cent) compared to Rs.4,12,503 in March 2017. Maharashtra has the highest share of deposits (19.94 per cent) in the country. The share of deposits in scheduled commercial banks in Kerala to the total deposits in the country as on March 2018 is 3.84 per cent. The details are shown in Table 2 and the growth rate is shown in Chart 2.

Table 2: Deposits in Scheduled Commercial Banks as from March 2014 to 2018

Deposits in Scheduled Commercial Banks as on March 2014 to 2018											
Sl. No	State	Deposits 2014		Deposits 2015		Deposits 2016		Deposits 2017		Deposits 2018	
		Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
1	Andhra Pradesh	443061	5.52	187176	2.11	213266	2.21	250682	2.33	276527	2.41
2	Assam	85069	1.06	97379	1.1	103795	1.07	122305	1.14	134644	1.17
3	Bihar	191856	2.39	216864	2.44	245223	2.54	295882	2.75	317131	2.76
4	Chhattisgarh	89288	1.11	99177	1.12	104054	1.08	120582	1.12	133067	1.16
5	Gujarat	416558	5.19	477834	5.37	522407	5.41	609909	5.67	643747	5.61
6	Haryana	193314	2.41	222746	2.51	253707	2.63	310704	2.89	367362	3.2
7	Himachal Pradesh	52440	0.65	59850	0.67	66793	0.69	79416	0.74	85753	0.75
8	Jharkhand	122224	1.52	142189	1.6	162469	1.68	187197	1.74	199475	1.74
9	Karnataka	539210	6.72	634210	7.13	704274	7.29	782335	7.28	840424	7.32
10	Kerala	277940	3.46	320010	3.6	363511	3.76	412503	3.84	440361	3.84
11	Madhya Pradesh	226897	2.83	277873	3.13	286913	2.97	322859	3	340117	2.96
12	Maharashtra	2052530	25.57	2133718	24	2177596	22.54	2163654	20.12	2289301	19.94
13	Odisha	165909	2.07	189205	2.13	212055	2.2	246976	2.3	271019	2.36
14	Punjab	230538	2.87	261873	2.95	293084	3.03	336688	3.13	350459	3.05
15	Rajasthan	201603	2.51	235472	2.65	260432	2.7	315105	2.93	336820	2.93
16	Tamil Nadu	510694	6.36	545350	6.13	604540	6.26	671756	6.25	725810	6.32
17	Telangana	0	0	327856	3.69	358650	3.71	396303	3.69	420423	3.66
18	Uttar Pradesh	600931	7.49	672765	7.57	749371	7.76	890702	8.28	957832	8.34
19	Uttarakhand	76625	0.95	88651	1	97521	1.01	114997	1.07	123440	1.08
20	West Bengal	483397	6.02	553113	6.22	615552	6.37	688824	6.41	722699	6.3
	Total	6960084	86.7	7743311	87.09	8395213	86.91	9319379	86.68	9976410	86.91
	All India	8028220	100	8890982	100	9659968	100	10751439	100	11479288	100

Source: Economic Review, 2018, State Planning Board, Thiruvananthapuram, Kerala

Chart 2: Growth of deposits in Scheduled Commercial Banks in Kerala as on March 2014 to 2018



Source: Economic Review, 2018, State Planning Board, Thiruvananthapuram, Kerala

From the chart above, it is visible that the growth of deposits in SCBs in Kerala shows a linear trend over the period from March 2014 to 2018. The growth in deposits is increased at a linear rate of 41734, with a coefficient of determination of 0.994 ($R^2=0.994$).

2.3 Advances

According to SLBC data, as on March 2018, banks in Kerala including the commercial banks and co-

operative banks disbursed Rs.3,34,513 crore as advances as compared to Rs.2,98,092 crore in March 2017. All Commercial banks including public sector commercial banks and private sector commercial banks and RRBs together disbursed Rs.2,86,735 crore as advances at the end of March 2018. Out of this the advances of public sector commercial banks, private sector commercial banks and RRBs were Rs.1,60,562 crore, Rs.1,09,853 crore and Rs.16,320 crore respectively.

2.3.1 Advances for Agricultural Purposes

As per SLBC report 2018, the bank group wise disbursement of agricultural advances shows that total agricultural advance including that by co-operative banks as on March 2018 reached Rs.76,626 crore from Rs.68,787 crore in March 2017. The per cent of agricultural advance to total advance is 23 per cent. From the SLBC data, it is observed that RRBs provide the highest amount of advances to agriculture (63 per cent) out of their total advances followed by public sector commercial banks (25 per cent) and private sector commercial banks (18 per cent). The major State-wise advances financed by scheduled commercial banks are given in Table 3.

Table 3: Major State -wise advances financed by Scheduled Commercial Banks at the end of March 2016, 2017 and 2018 (Rs. in crore)

Major State -wise advances financed by Scheduled Commercial Banks at the end of March 2016, 2017 and 2018 (Rs. in crore)							
Sl.No	State	Advances 2016		Advances 2017		Advances 2018	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
1	Andhra Pradesh	222899	2.96	251210	3.17	310457	3.58
2	Assam	42671	0.57	48776	0.62	57307	0.66
3	Bihar	81246	1.08	90875	1.15	101511	1.17
4	Chhattisgarh	66067	0.88	74603	0.94	83352	0.96
5	Gujarat	392377	5.22	413536	5.22	482779	5.56
6	Haryana	178241	2.37	179536	2.26	218337	2.51
7	Himachal Pradesh	22500	0.3	23289	0.29	26480	0.3
8	Jharkhand	46635	0.62	49991	0.63	54639	0.63
9	Karnataka	490850	6.53	523409	6.6	586740	6.76
10	Kerala	224800	2.99	246314	3.11	281384	3.24
11	Madhya Pradesh	173308	2.3	190915	2.41	221512	2.55
12	Maharashtra	2235305	29.72	2299579	29.01	2404766	27.7
13	Odisha	85607	1.14	92313	1.16	100653	1.16
14	Punjab	205540	2.73	202582	2.56	221388	2.55
15	Rajasthan	190794	2.54	210398	2.65	254382	2.93
16	Tamil Nadu	682310	9.07	715725	9.03	784172	9.03
17	Telangana	371581	4.94	394571	4.98	445635	5.13

18	Uttar Pradesh	327749	4.36	351031	4.43	391892	4.51
19	Uttarakhand	33617	0.45	38791	0.49	44669	0.51
20	West Bengal	333854	4.44	398762	5.03	364454	4.2
	Total	6407951	85.2	6796206	85.73	7436509	85.65
	All India	7520929	100	7927002	100	8682573	100

Source: Economic Review, 2018, State Planning Board, Thiruvananthapuram, Kerala

2.3.2 Advances to SCs/STs and Weaker Sections

As per SLBC data, in March 2018, an amount of Rs.5,457 crore and Rs.1,348 crore was disbursed to SC and ST persons respectively in the State by various banks as against Rs. 4,549 crore and Rs.1,172 crore as on March 2017. Compared to the previous year there is a 15 per cent increase in the advances given to Scheduled Caste and a 12 per cent increase in the advances given to Scheduled Tribe persons. The bank group-wise advances given to SC and ST are given in Table 4. As per SLBC data, in March 2018, Rs.68,434 crore has been disbursed to weaker sections in the State which shows a 7 per cent increase as compared to March 2017 (Rs.63,877).

Table 4: Group-wise advances given to SC and ST

Sl. No	Bank	SC Advances		ST Advances	
		Number	Amount	Number	Amount
1	Public Sector Commercial Banks	291425	4925.27	76866	1205.38
2	RRB	32230	188.32	16099	94.12
3	Private Sector Commercial Banks	11142	132.84	1154	18.31
4	Small Finance Banks	349	0.1	47	0.07
5	Co-Operative Banks	12145	211.06	3145	30.21
	Total banking sector	347291	5457.57	97311	1348.09

Source: State Level Bankers Committee, Kerala, March 2018

Notes: SC- Scheduled Caste, ST- Scheduled Tribes

2.3.3 Housing Loans

As per SLBC data (March 2018), banks in Kerala including commercial banks and co-operative banks sanctioned Rs.39,829 crore to 7,06,734 beneficiaries as housing loan against Rs.37,644 crore to 7,31,427 beneficiaries in March 2017. There was a 6 per cent growth in total housing loan sanctioned. As compared to March 2017 the per cent growth of housing advances has decreased from 11.6 per cent to 6 per cent. As on March 2018, public sector banks

disbursed Rs.25,760 crore to 3,58,521 beneficiaries, RRBs disbursed Rs.2,436 crore to 53,285 beneficiaries, private sector commercial banks disbursed Rs.3,985 crore to 58,676 beneficiaries, small finance banks disbursed Rs.0.09 crore to 6 beneficiaries and co-operative banks disbursed Rs.7,648 crore to 2,38,246 beneficiaries. Public sector commercial banks provided housing advances to more than half of the total beneficiaries (51 per cent) followed by co-operative banks (33.7 per cent). The major share of housing loans was disbursed through public sector commercial banks (64.68 per cent) followed by co-operative Banks (19.2 per cent)

2.3.4 Educational Loans

It is observed that as on March 2018, Rs.9,694 crore was sanctioned to 3,40,301 students as educational loans against Rs.8,995 crore to 3,69,041 students in 2017. Even though the number of students benefited decreased from the previous year, the total educational loan disbursed increased by 7.8 per cent. As per the SLBC data, public sector commercial banks disbursed Rs.7,637.57 crore to 2,59,037 students, which accounts for 79 per cent of the total educational loan provided. RRBs disbursed Rs.910 crore to 32,458 students, private sector commercial banks disbursed Rs.1,064 crore to 44,823 students and co-operative banks disbursed Rs.83 crore to 3,983 students in March 2018. The per cent share of educational loan NPA in total outstanding education loan shows a substantial increase from 13 per cent in 2017 to 38 per cent in 2018.

2.3.5 Credit-Deposit Ratio

According to the RBI quarterly statistics, the credit-deposit (CD) ratio of the banking sector in India of scheduled commercial banks at the end of March 2018 recorded a slight increase to 75.64 per cent from 73.73 per cent in March 2017. Among the major States, Andhra Pradesh has the highest CD ratio (112.27 per cent) followed by Telangana (106 per cent) and Maharashtra (105.04 per cent).

As on March 2018, the CD Ratio in Kerala of scheduled commercial banks increased to 63.90 per cent from 59.71 per cent in the previous year. From Table 5, it can be observed that the total deposits of scheduled commercial banks in Kerala is Rs.4,40,361 crore and total credit is Rs.2,81,384 crore as on March 2018.

Table 5: State wise credit deposit ratio of SCB

State wise deposit, credits and credit deposit ratio of Scheduled Commercial Banks (SCBs)(Rs. in crore)							
Sl.No	States	Mar-17			Mar-18		
		Deposit	Credit	CD Ratio	Deposit	Credit	CD Ratio
1	Andhra Pradesh	250682	251210	100.21	276527	310457	112.27
2	Assam	122305	48776	39.88	134644	57307	42.56
3	Bihar	295882	90875	30.71	317131	101511	32.01
4	Chhattisgarh	120582	74603	61.87	133067	83352	62.64
5	Gujarat	609909	413536	67.8	643747	482779	75
6	Haryana	310704	179536	57.78	367362	218337	59.43
7	Himachal Pradesh	79416	23289	29.33	85753	26480	30.88
8	Jharkhand	187197	49991	26.71	199475	54639	27.39
9	Karnataka	782335	523409	66.9	840424	586740	69.81
10	Kerala	412503	246313	59.71	440361	281384	63.9
11	Madhya Pradesh	322859	190915	59.13	340117	221512	65.13
12	Maharashtra	2163654	2299579	106.28	2289301	2404766	105.04
13	Odisha	246976	92313	37.38	271019	100653	37.14
14	Punjab	336688	202582	60.17	350459	221388	63.17
15	Rajasthan	315105	210398	66.77	336820	254382	75.52
16	Tamil Nadu	671756	715725	106.55	725810	784172	108.04
17	Telangana	396303	394571	99.56	420423	445635	106
18	Uttar Pradesh	890702	351031	39.41	957832	391892	40.91
19	Uttarakhand	114997	38791	33.73	123440	44669	36.19
20	West Bengal	688824	398762	57.89	722699	364454	50.43
	Total	9319379	6796205	72.93	9976411	7436509	74.54
	All India	10751439	7927002	73.73	11479288	8682573	75.64

Source: Economic Review, 2018, State Planning Board, Thiruvananthapuram, Kerala

The CD Ratio of the banking sector in India of public sector banks as on March 2018 is 71.07 per cent. It was 69.64 per cent in March 2017. Among the states, Telangana has the highest CD Ratio (113.15 per cent) followed by Maharashtra (111.85 per cent) and Tamil Nadu (107.90 per cent). The CD Ratio of public sector banks in Kerala decreased from 63.04 per cent to 61.86 per cent in March 2018.

2.3.6 District-Wise Analysis of Banking Statistics

The District-wise analysis of banking statistics in Kerala by RBI reveals that Ernakulam has the highest number of branches (1,004) followed by Thrissur (722) and Thiruvananthapuram (711). The lowest number of branches is in Wayanad (120). In Kerala, Wayanad has the highest CD ratio (108 per cent) and Pathanamthitta has the lowest (27.14 per cent) as per Table.6.

Table 6: District wise distribution of number of branches, Aggregate deposits, Gross Bank Credit and CD ratio of Scheduled Commercial Banks - Kerala, March 2018 (Rs. In crore)

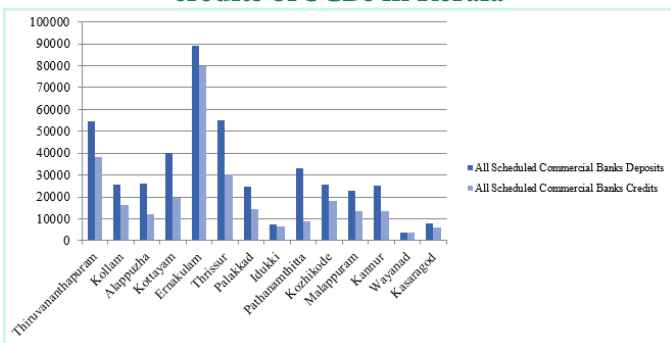
Sl. No	District	All Scheduled Commercial Banks			
		No. of Branches	Deposits	Credits	CD Ratio
1	Thiruvananthapuram	711	54618	38274	70.08
2	Kollam	381	25393	16323	64.28
3	Alappuzha	379	25947	11968	46.12
4	Kottayam	498	40232	19482	48.42
5	Ernakulam	1004	88887	79787	89.76
6	Thrissur	722	55055	30276	54.99
7	Palakkad	423	24571	14256	58.02
8	Idukki	174	7589	6440	84.86

9	Pathanamthitta	380	33165	9000	27.14
10	Kozhikode	445	25700	18150	70.62
11	Malappuram	440	22942	13712	59.77
12	Kannur	384	24993	13705	54.84
13	Wayanad	120	3612	3901	108
14	Kasaragod	220	7657	6109	79.78
	Total	6281	440361	281383	63.9

Source: Economic Review, 2018, State Planning Board, Thiruvananthapuram, Kerala

As on March 2018, the maximum share of deposits is with Ernakulam District. District-wise distribution of deposits and credit of scheduled commercial banks in Kerala as on March 2018 is shown in Chart 3.

Chart 3: District wise distribution of deposits and credits of SCBs in Kerala



Source: Economic Review, 2018, State Planning Board, Thiruvananthapuram, Kerala

2.4 Payment System of Scheduled Commercial Banks

The Reserve Bank is committed to building a world class payment and settlement system for a 'less-cash' India through responsive regulation, robust infrastructure, effective supervision while focusing on customer centricity as envisaged in the Payment and Settlement Systems in India: Vision-2018 document. During 2018-19, real time gross settlement (RTGS) system remained the most dominant medium, with a share of 82.7 per cent in terms of value in total payment system transactions. In terms of volume, however, the share of RTGS transactions was less than one per cent. During 2017-18 and 2018-19, the share of retail electronic clearing and card payments rose in terms of volume and value. More than half of the transactions were carried out through card payments during 2017-18 and 2018-19. In terms of value too, card payments recorded a sharp rise after

November 2016. In 2017-18, however, the growth in volume of card payments decelerated sharply which can be attributed to the high base in the previous year

Within retail payments which are characterized by large volumes, electronic fund transfers accounted for 90 per cent in terms of value with National Electronic Funds Transfer (NEFT) accounting for majority share. In terms of volume, some relatively new mediums such as immediate payment service (IMPS) and unified payments interface (UPI) have grown in importance in the recent years. They have emerged as multi-channel systems providing various options to customers to originate transactions.

2.4.1 ATMs and PoS

The number of ATMs and in particular, on-site ATMs, declined during the year on account of rationalisation of the number of branches by a few PSBs. PVBs recorded an increase in the number of their ATMs. During 2018-19 (up to August), the number of ATMs (excluding SFBs and PBs) declined further to 204,285, attributable to the increased use of electronic means of payments. During the same period, robust growth was observed in the deployment of PoS terminals across the country

2.4.2 Debit and Credit Cards

The growth of credit cards continued to accelerate in 2017-18, while the rate of growth of debit cards slackened. Availability of easy equated monthly installment (EMI) facilities, cash-backs, rewards and discounts offered on various e-commerce platforms were the major drivers of credit card growth. The average amount per transaction for credit cards remained much higher than that for debit cards, attributable to the preference for credit cards for undertaking high value transactions.

3. FINDINGS OF THE STUDY

The findings of the present study are presented below:

1. Successful Expansion of Financial Inclusion through PMJDY

The implementation of the Pradhan Mantri Jan-Dhan Yojana (PMJDY) significantly increased access to banking services among both rural and urban populations. PMJDY beneficiary accounts reached 3,526.62 lakh by March 2019. The growth of PMJDY

accounts from 2015–2019 showed a strong linear trend with an annual increase of 514.7 lakh accounts and a high coefficient of determination ($R^2 = 0.972$), indicating consistent expansion.

2. Improved Access to Formal Banking Services

The scheme succeeded in providing basic banking accounts, RuPay debit cards, overdraft facilities, insurance coverage, pension access, and Direct Benefit Transfer (DBT) benefits to previously unbanked households. The shift from “one account per household” to “one account per adult” further strengthened financial inclusion.

3. Growth in Bank Deposits

Deposits in scheduled commercial banks in Kerala increased from Rs.4,12,503 crore in 2017 to Rs.4,40,361 crore in 2018, registering a growth of 6.75%. Deposit growth exhibited a strong linear trend during 2014–2018 with an annual increase of ₹41,734 crore and $R^2 = 0.994$. Kerala contributed 3.84% of total deposits in India.

4. Increase in Credit and Advances

Total advances in Kerala increased from Rs.2,98,092 crore in 2017 to Rs.3,34,513 crore in 2018. Commercial banks and cooperative banks played a major role in extending credit to various sectors of the economy.

5. Strong Support to Agriculture

Agricultural advances increased from Rs.68,787 crore in 2017 to Rs.76,626 crore in 2018. Agriculture accounted for 23% of total advances. Regional Rural Banks (RRBs) devoted the highest proportion (63%) of their advances to agriculture, highlighting their importance in rural financial inclusion.

6. Improved Credit Access for Vulnerable Groups

Advances to Scheduled Castes (SCs) increased by 15%, while advances to Scheduled Tribes (STs) increased by 12% in 2018 compared to the previous year. Loans to weaker sections increased by 7%, indicating improved financial access among disadvantaged groups.

7. Growth in Housing Finance

Housing loans increased by 6%, reaching ₹39,829 crore in 2018. Public sector banks accounted for the largest share of housing finance, serving more than

half of all beneficiaries.

8. Expansion of Educational Loans

Educational loan disbursement increased from Rs.8,995 crore in 2017 to Rs.9,694 crore in 2018. Public sector banks contributed nearly 79% of total educational loans. However, the educational loan NPA ratio rose sharply from 13% to 38%, indicating repayment challenges.

9. Improvement in Credit–Deposit (CD) Ratio

Kerala's CDredit Deposit ratio increased from 59.71% in 2017 to 63.90% in 2018, showing better utilization of deposits for lending. Despite improvement, Kerala's CD ratio remained below the national average of 75.64%.

10. Regional Disparities in Banking Development

Ernakulam had the highest number of bank branches, followed by Thrissur and Thiruvananthapuram. Wayanad recorded the highest Credit Deposit ratio (108%), while Pathanamthitta recorded the lowest (27.14%), indicating uneven banking penetration across districts.

11. Rapid Growth of Digital Payments

Electronic payment systems such as National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS), and Unified Payments Interface (UPI) gained significant importance. Retail electronic payments and card transactions increased substantially, supporting the move toward a less-cash economy.

12. Shift from ATMs to Digital Payment Infrastructure

The number of ATMs declined due to increased adoption of digital banking channels. Deployment of Point of Sale (PoS) terminals expanded rapidly, reflecting growing acceptance of digital transactions.

13. Increasing Use of Credit Cards

Credit card usage grew faster than debit card usage due to incentives such as cashback offers, rewards, discounts, and EMI facilities. Credit cards were increasingly preferred for high value transactions.

4. CONCLUSION

The study concludes that banking sector initiatives have played a significant role in advancing financial inclusion in India by expanding the reach of formal financial services to previously excluded sections of society. Under the policy and regulatory guidance of the Reserve Bank of India, banks have progressively enhanced their outreach through the expansion of banking outlets, simplified account facilities, improved credit delivery mechanisms, and the strengthening of payment systems. The analysis based on secondary data reveals a steady growth in key financial inclusion indicators, indicating improved access and participation in the formal financial system.

The findings suggest that banking-led initiatives have contributed positively to the depth and breadth of financial inclusion in the economy. There should be continued regulatory support and coordinated institutional efforts to sustain and further strengthen financial inclusion outcomes, thereby supporting inclusive and balanced economic development.

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