# Role of Commercial Banks in Promoting Financial Inclusion in Jammu and Kashmir

**Thesis submitted for the award of the Degree of**

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**in**

**Economics**

**by**


**Yasser Ibrahim Poswal**

**(A181438/18PHEC002HY)**

**Under the Supervision of**

**Prof. Farida Siddiqui**

**HoD & Professor**

**Department of Economics**

**School of Arts & Social Sciences**

**Maulana Azad National Urdu University**

**Gachibowli, Hyderabad**

**Telangana—500032**


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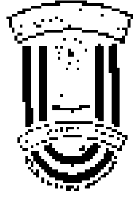

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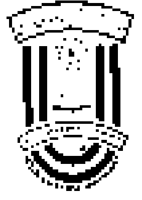

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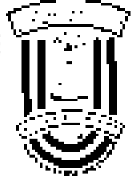

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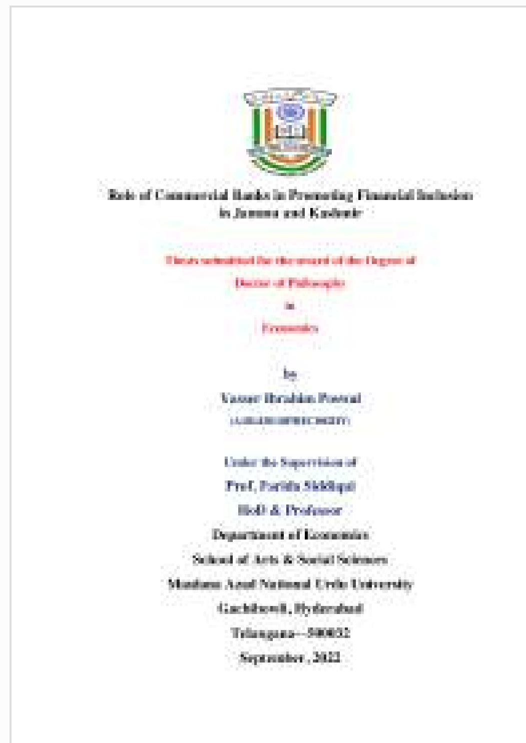

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# List of Abbreviations

| | |
|---|---|
| ATM | Automated Teller Machine |
| AFI | Alliance for Financial Inclusion |
| APY | Atal Pension Yojana |
| BCs | Business Correspondents |
| BFs | Business Facilitators |
| BSBDAs | Basic Savings Bank Deposit Accounts |
| BSRs | Basic Statistical Returns |
| CRR | Cash Reserve Ratio |
| CSO | Civil Society Organisations |
| DBT | Direct Benefit Transfer |
| EDB | Ellaquai Dehati Bank |
| EM | Emerging Markets |
| FAS | Financial Access Survey |
| FIF | Financial Inclusion Fund |
| FII | Financial Inclusion Index |
| FIPs | Financial Inclusion Plans |
| FLCs | Financial Literacy Centres |
| FLW | Financial Literacy Week |
| FsQCA | Fuzzy-set Qualitative Comparative Analysis |
| FGLS | Feasible Generalized Least Squares |
| IMF | International Monetary Funds |
| GCCs | General Credit Cards |
| GDP | Gross Domestic Product |
| GHS | General Household Survey |
| GMM | General Method of Moments |
| GSDP | Gross State Domestic Product |
| HDI | Human Development Index |
| ICT | Information and Communications Technology |
| IFI | Index of Financial Inclusion |

| | |
|---|---|
| IRDAI | Insurance Regulatory and Development Authority of India |
| J&K | Jammu and Kashmir |
| JKB | Jammu and Kashmir Bank |
| JKGB | Jammu and Kashmir Grameen Bank |
| KCCs | Kisan Credit Cards |
| KYC | Know Your Customer |
| MFIs | Micro Financial Institutions |
| MENA | Middle East and North Africa |
| MUDRA | Micro Units Development & Refinance Agency |
| NABARD | National Bank for Reconstruction and Development |
| NCFE | National Centre for Financial Education |
| NGOs | Non-Government Organisations |
| NREGA | National Rural Employment Guarantee Act |
| OECD | Organization for Economic Co-operation & Development |
| OLS | Ordinary Least Squares |
| PCA | Principal Component Analysis |
| PFRDA | Pension Fund Regulatory and Development Authority |
| PSB | Public Sector Bank |
| PVB | Private Sector Bank |
| PMJDY | Pradhan Mantri Jan Dhan Yojana |
| PMJJBY | Pradhan Mantri Jeevan Jyoti Bima Yojana |
| PMSBY | Pradhan Mantri Suraksha Bima Yojana |
| PNB | Punjab National Bank |
| RRB | Regional Rural Bank |
| RBI | Reserve Bank of India |
| SCB | Schedule Commercial Bank |
| SBI | State Bank of India |

| | |
|---|---|
| SEBI | Stock Exchange Board of India |
| SLR | Statutory Liquidity Ratio |
| SHGs | Self Help Groups |
| UIAI | Unique Identification Authority of India |
| UT | Union Territory |

# 1 Introduction

The concept of financial inclusion implies all the ideas that make the financial services available, affordable and accessible, mostly to the less-income and financially excluded section of the society. The argument that the finance is at the core of the growth process of an economy, minimising the major macroeconomic problems like, poverty, income inequality and unemployment is well established both theoretically as well empirically. Since financial inclusion has the ability to stop the cycle of poverty and reduce income inequality, it has risen to the top of the global reform agenda. As a result of the lack of inclusiveness in the real world's financial institutions, there has been a resurgence of interest in financial inclusion as a means to hasten the spread of inclusive development. Economic literature has suggested various channels through which developed financial system can foster economic growth. It is argued that a sophisticated financial system eases the exchange of goods and services through the provision of payment services, mobilises, pools and allocates the savings to their productive use in the form of investments and hence influence growth[1].

By allowing people to save and borrow money in a risk-free environment and by making available a wide variety of useful financial services, a financially inclusive system improves productivity and quality of life. Financial inclusion is a key problem for the World Bank because of its numerous ramifications (World Bank, 2014). The

[1] For further details, see (Omar & Inaba, 2020).

nations that make up the United Nations have made financial inclusion a statutory ambition and a major goal of their development strategy (Sahay et al., 2015). Financial exclusion is a major concern not only for under-developed and low-income countries; many developed and high-income countries also suffer from it, as a large number of people belonging to lower income categories in developed countries are also found to be outside their formal financial system[2]. Financial inclusion is a policy priority in many nations because of the widespread acknowledgement of the value of such a system.

Increased economic and social prospects, especially in developing countries, can be attained through easier access to and lower costs associated with the financial system (Omar & Inaba, 2020). As a result, financial inclusion improves easy access to banking and other financial services and helps impoverished individuals in order to circumvent the restrictions placed by the high costs and limited flexibility of cash transactions. Financial inclusion increases savings in developing nations by providing people with the opportunity microloans to fund further learning or start enterprises of any size (Caskey et al, 2006) (Honohan, 2008) (Dupas & Robinson, 2013).

In the current era of development, it is believed that an economy cannot sustained without a well organised and formal financial framework. All the macroeconomic problems of an economy are directly or indirectly get affected by its financial system. It couldn't be wrong to say that financial system technically acts as blood to an economy. A healthy financial system provides a better platform for a nation to combat its economic problems more efficiently. Financial inclusion considered as a bridge

[2] For better explanation of financial exclusion and policy implication on it in developed countries, see (Kempson, et al., 2004).

between economic objectives and outcomes. Around the world, focus on financial inclusion as an agenda is to ensure that financial inclusion empowers an individual and small businesses in strengthening economies and also seen as a key pillar in economic development. Almost for every country in general and for developing economies particular, it is considered as one of the primary objectives to maximise the domain of financial inclusion by connecting its unbanked masses with a formal financial system. At global level the prime institutions like the World Bank and the International Monetary Fund (IMF) are continually working on its processing and achievements. Moreover, it is a matter of fact that financial inclusion helps people (particularly the poor and vulnerable groups) to break the chain of poverty by facilitating formal financial support to get better education, medical expenses and even to start a business.

World-renowned economist Dr. Amartya Sen stated that "Poverty is the deprivation of opportunity" and financial inclusion acts as an opportunity to the masses to contribute in the economy of a country. It proves beyond a reasonable doubt that a country as large and developing as India desperately needs widespread access to formal financial services. When the underserved finally gain access to the banking system, they can utilise microcredit to start businesses, invest their savings, build assets, protect themselves financially in case of illness or death, and put money aside for their children's education (Basu, 2006). Being an under-developed country, it is important and most urgent to maximise financial inclusion because of the fact that access to formal finance has a significant impact in eliminating or minimising poverty, unemployment and other socio-economic problems. Consequently, Both

explaining what financial inclusion is and showing how widespread exclusion is are crucial.

## 1.1 Definitions of Financial Inclusion

Existing literature on financial inclusion has varying definitions of the concept. Many studies define the concept in terms of financial exclusion, which relates to the broader context of social inclusion. For example, Leyshon (1995) highlights the exclusion of some groups and individuals from gaining access to formal financial system, while Sinclair (2001) focuses on the inability to access necessary financial services in an appropriate form.

In contrast, Amidžić, Massara, and Mialou (2014) and Sarma (2008) directly define financial inclusion. Amidžić, Massara, and Mialou (2014) stated that financial inclusion is an economic state where individuals and firms are not denied access to basic financial services. This study follows the definition of Sarma (2008) which views financial inclusion as a process that ensures the ease of access, availability, and usage of financial services of all members of society. Unlike the definition of Amidžić, Massara, and Mialou (2014), the advantage of Sarma's (2008) definition is that it builds the concept of financial inclusion based on several dimensions, including accessibility, availability, and usage, which can be discussed separately.

When it comes to define financial inclusion, countries and regions have different priorities depending on the level of socio-economic and financial development, the stakes in the financial sector, and even the socio-economic characteristics of those who are financially excluded. When it comes to financial exclusion, access, conditions, pricing, marketing, or self-exclusion are all factors that contribute to a

person or organisation being unable to obtain the financial services they need. Literature study indicates that the majority of operational definitions are context-specific, stemming from country-specific issues of financial exclusion and socioeconomic situations. Consequently, the context-specific aspects of financial exclusion are important from a public policy standpoint. In addition, the definitions of financial inclusion and exclusion have evolved from those that primarily focused on physical access to a broader definition that encompasses access to, usage of, and understanding of products and services. Based on access to financial products or services, the operational definition of financial inclusion emphasises the role of financial institutions or service providers involved in the process.

The following chart is a schematic representation of the components and organisational structure of numerous financial products and services.

| Author/Institution | Definition | Indicators |
|---|---|---|
| Asian Development Bank (2000) | *"Provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises."* | Deposits, loans, payment services, money transfer and insurance |
| Stephen P. Sinclair (2001) | *"Financial exclusion means the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions."* | Basic banking services for money transmission, credit, insurance, debt and debt assistance, long-term savings and financial literacy |
| Treasury Committee, House of Commons, UK (2004) | *"Ability of individuals to access appropriate financial products and services."* | Affordable credit and savings for all and access to financial advice. |
| United Nations (2006) | *"A financial sector that provides 'access' to credit for all 'bankable' people and firms, to insurance for all insurable people and firms and to savings and payments services for* | Access to credit, insurance, savings, payment services. |

| | | |
|---|---|---|
| | *everyone. Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose to use them if desired.”* | |
| World Bank (2008) | *“Broad access to financial services implies an absence of price and non-price barriers in the use of financial services; it is difficult to define and measure because access has many dimensions.”* | Access to financial services such as deposit, credit, payments, insurance |

In Indian context, the definition by the Report of committee on financial inclusion in India under the chairmanship of C Rangarajan 2008 is considered as most suitable definition. The report defined financial inclusion as “*The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost.”*

At national level, some other institutions and organisations also defined financial inclusion by considering different dimensions of financial services as CRISIL defined it as *“The extent of access by all the section of society to formal financial services such as credit, deposit, insurance and pension services”*.

There are many possible ways in which the term financial inclusion can be defined, each of which touches one or the other aspects. Many experts and institutions defined in different terminology which together almost all aspects of financial inclusion.

In a similar vein, Raghuram Rajan committee on financial sector reform defined financial inclusion as “*Expanding access to financial services such as payment services, saving product, insurance and pension services”.* Further, Reserve Bank of India defined it as “*Universal access to a wide range of financial services at a reasonable cost. These includes not only banking products but also other financial services such as insurance and equity products”.*

## 1.2 Characteristics, Causes & Repercussions of Financial Exclusion.

No single variable can fully account for the phenomenon of exclusion because its nature, manifestations, and causes are so varied. Physical access, expensive fees and penalties, stipulations connected to products that make them inappropriate or difficult, and views that financial service companies are unwelcoming to low-income individuals are frequently cited as the primary obstacles to the expansion of financial services (Sinclair, 2001).

The impediments to financial inclusion were not deliberately erected rather they are the result of the financial services industry's fundamental operation. (Kempson, et al., 2000) analyses a variety of physical and geographical barriers to financial inclusion, as well as a vast array of additional factors that can contribute to financial exclusion for certain products and persons under specific conditions.

There have been identified a variety of dimensions or forms of financial exclusion. Important facets of financial exclusion include:

(i) Access Exclusion - Risk-based access control restrictions (by financial services providers).

(ii) Condition Exclusion - restrictions placed on financial products that limit their usefulness to certain groups of people.

(iii) Price Exclusion - Access to financial items may be limited to those who can pay exorbitant fees.

(iv) Marketing Exclusion - Targeted advertising and purchasing can have the consequence of excluding some consumers.

(v) Self-Exclusion - People often choose not to utilise a financial product because they worry, they will be denied access to it.

It is also important to discuss why people don't have an account with a formal financial institution. To better understand why some people, choose not to formally linked themselves with formal financial institutions, the 2017 Global Findex survey surveyed adults who do not have a bank account. Most of the respondents provided two explanations. The most prevalent reason was insufficient funds to utilise the account. Two-thirds of respondents indicated this as a reason for not having a bank account, and nearly one-fifth cited it as the only reason. A quarter of respondents cited cost and distance, and a similar proportion stated Since a relative already has an account, they do not sign up for one. About one-fifth of those without a bank account cited a lack of documents and confidence in the financial system, while six percent cited religious problems.

## 1.3 Extent of Financial Exclusion

In light of the significance of financial inclusion, it is necessary to determine the extent of financial exclusion in order to plan accordingly for reaching out to the financially excluded segment of the population and incorporating them into the formal financial system.

In recent years, the World Bank has performed its third study as part of its Global Findex initiative to determine the global degree of financial exclusion. The survey uncovered a variety of insights concerning how the trend of financial inclusion has evolved over time.

Nearly 1.7 billion adults do not have a bank account (at a financial outlet or through mobile money services), per the 2017 study from the World Bank's Global Findex Database. Considering that account ownership is nearly universal in high-income economies, as 94% of individuals in affluent nations have an account, almost all of these unbanked adults reside in poor countries[3]. In actuality, There are just seven developing countries where half of the world's unbanked population resides: Bangladesh, China, India, Indonesia, Mexico, Nigeria, and Pakistan. The subsequent discussion illustrates the pattern and progress of financial inclusion around the globe by analysing numerous socioeconomic factors. In figure 1.1, the global distribution of individuals without bank accounts is depicted to illustrate the degree of financial exclusion.

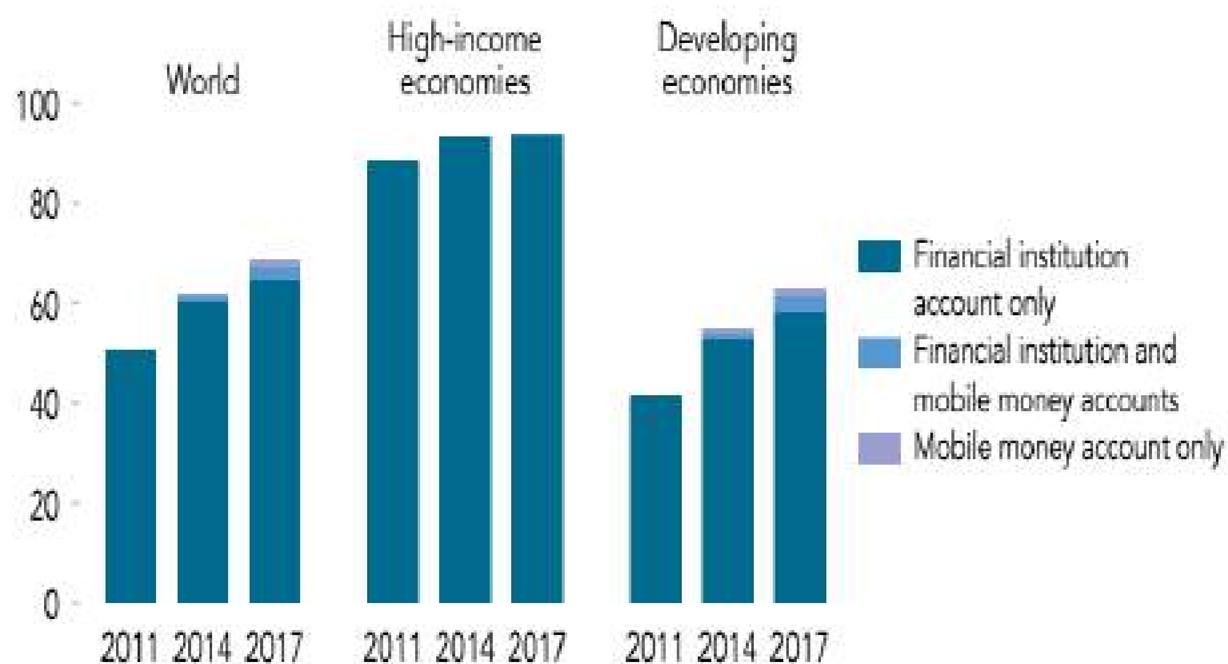
**Figure 1.1 Number of Adults without a bank account around the World (2017)**

*Source: Global Findex Database, The World Bank- 2017*

[3] Global Findex Database, The World Bank, 2017.

Between 2014 and 2017, around 51.5 crore people created an account at a conventional financial institution or through a mobile money provider. From 51 percent in 2011 to 69 percent in 2017, the global percentage of individuals with an online account has risen. In high-income countries, 94% of the population has a bank account, whereas in developing countries, just 63% of adults have a bank account. Additionally, account ownership varies considerably between countries.[4] Figure 1.2 depicts the percentage of adults around the world who have a bank account.

**Figure 1.2: Percentage of Adults having Bank Account Across the World (2011-2017)**




*Source: Global Findex Database, The World Bank, 2017*

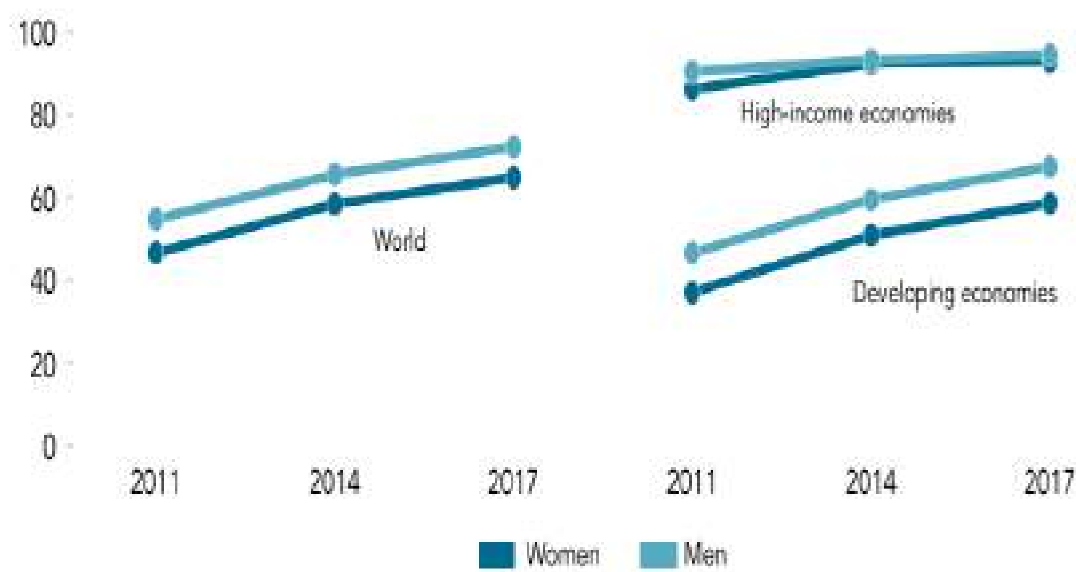
As formal account ownership has steadily increased over time, there is still a large gap in formal account ownership between the wealthy and the poor, men and women, literate and illiterate, etc.

[4] Global Findex Database, the World Bank, 2017.

Only 65 percent of women have an account, compared to 72 percent of males. This seven percent gender gap was reported in 2014 and 2011 as well.[5] After 2014, the gender gap in rich economies became negligible, but the gap in developing nations has remained constant at 9 percentage points. The gender disparity in account ownership across the globe is depicted in Figure 1.3.

Poorer adults worldwide are less likely to have a formal bank account than their wealthier counterparts. 74% of adults in the richest 60% of families within an economy have a bank account, while just 61% of adults in the lowest 40% of households have a bank account. This causes a global discrepancy between these two groups of thirteen percentage points.

**Figure 1.3: The Gender wise Gap in Account Ownership (%age of adults having a bank account) (2011-2017)**



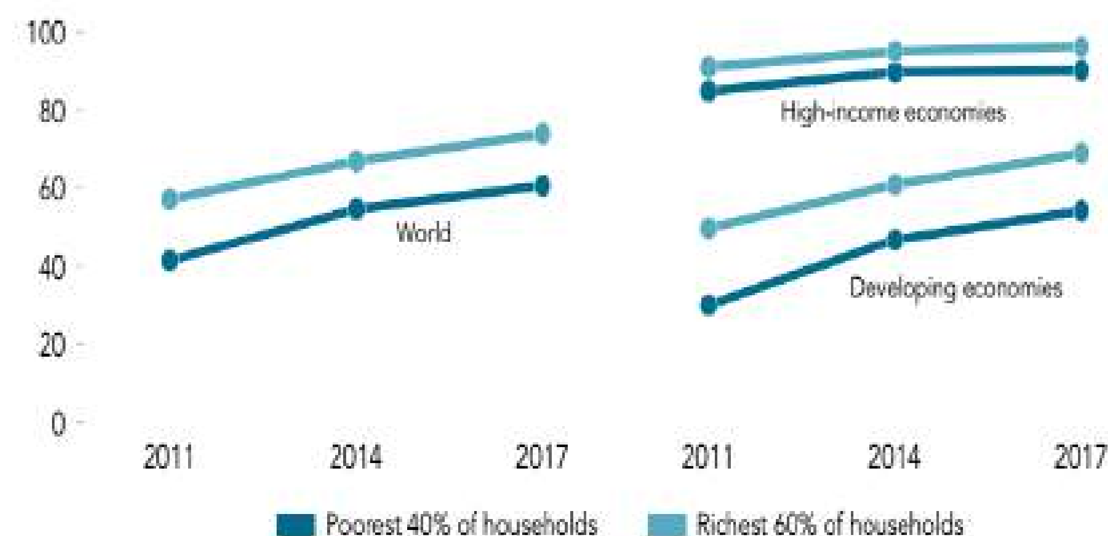

*Source: Global Findex Database, The World Bank, 2017*

[5] Global Findex Database, The World Bank, 2017.

Comparatively, the average discrepancy among developing economies is greater and also accounts for a substantial share of the global disparity. In economies with a high per capita income, account ownership among both groups is almost universal.

Since 2011, the discrepancy between wealthy and poor account ownership has improved marginally. In terms of formal bank account ownership, there was a considerable discrepancy of 17 percentage points between wealthy and poor populations in 2011.

**Figure 1.4: Disparity between the wealthy and the poor in terms of bank account ownership (2011-2017)**



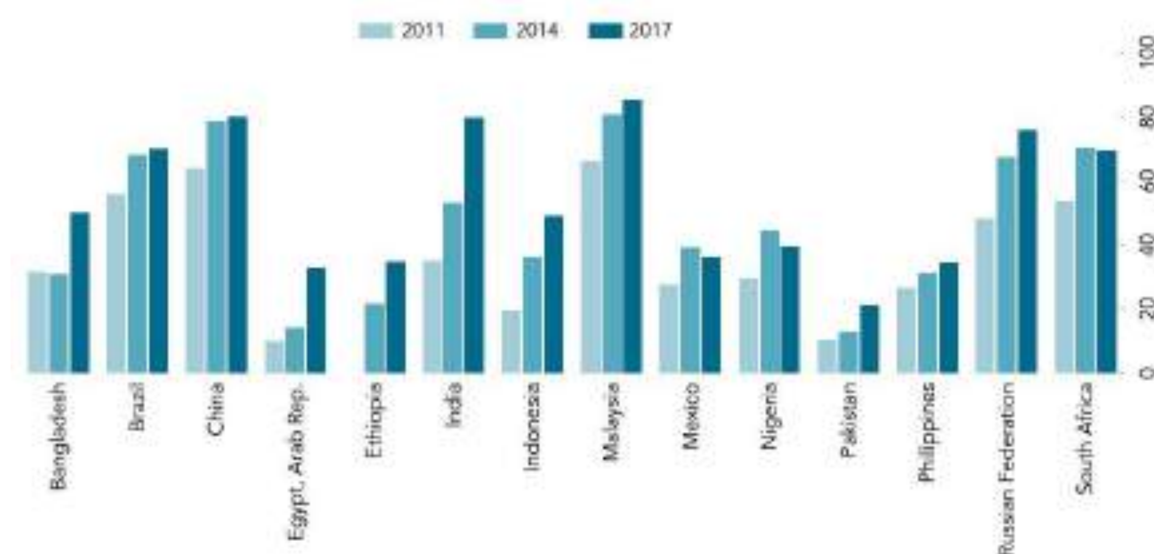

*Source: Global Findex Database, The World Bank, 2017*

## 1.4 Degree of Financial Exclusion in India

The problem of financial exclusion is not restricted to a single economy or region; rather, it is a global issue that requires the cooperation of all economies to work individually on the inclusion of unbanked populations in their formal financial systems and to reduce the obstacles in the path to financial inclusion. Therefore, India

has been assiduously attempting to achieve maximum financial inclusion. The march towards financial inclusion in India gained steam following independence, particularly after 1969, when banks were nationalised. Lead bank scheme, introduction of new financial institutions such as RRBs, cooperative banks, NABARD, programmes such as priority sector lending, no frills accounts, KCCs, GCCs, and PMJDY to further boost the financial inclusion process. In addition to this, there is still a sizeable segment of the population that is not covered by the formal financial system. Several studies have examined the scale of financial exclusion in India during various time periods. Being the second most populous nation in the world (121 crore in2011), providing financial services is a lengthy process. India has 190 million unbanked citizens as in 2017, which makes it the second most financially excluded economy behind China.[6].

**Figure 1.5: Percentage of Adults having Account among different Countries (2011-2017**




*Source: Global Findex Database, The World Bank- 2017*

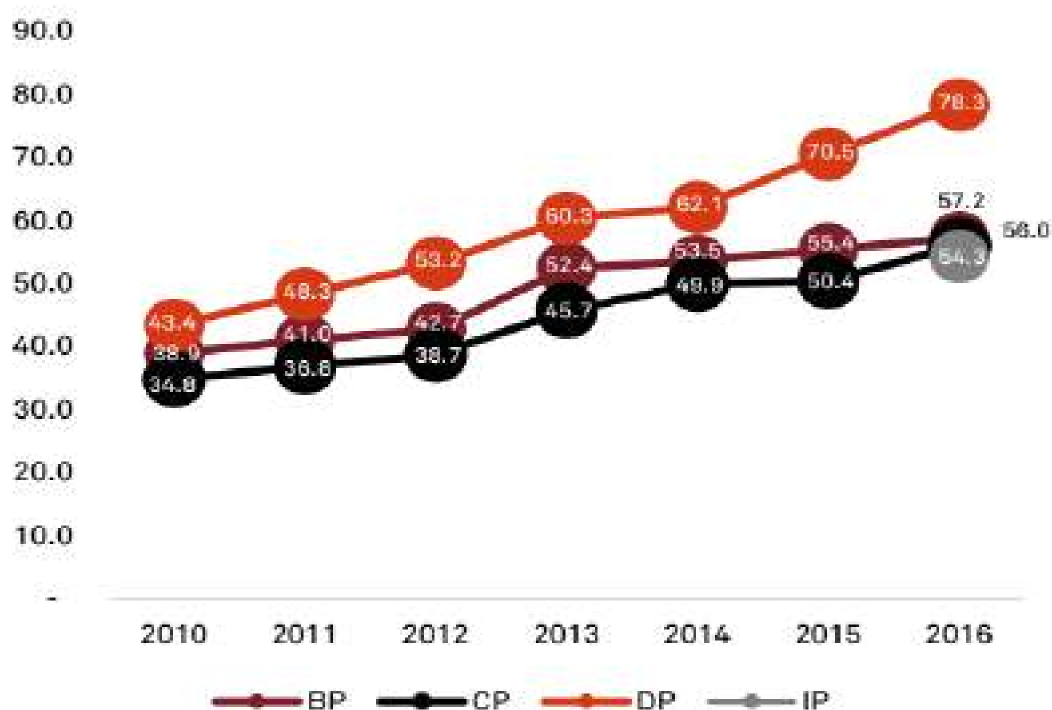
[6] Global Findex Database, The World Bank

In spite of this, as shown in Figure 1.5, India has made tremendous progress in connecting the unbanked population to the formal financial system, particularly after 2014. In 2011, only 30 percent of adults in India had a bank account, but that number has now increased to roughly 80 percent. This development in India may be attributable to the implementation of the Pradhan Mantri Jan Dhan Yojana (PMJDY) programme.

It is a well-established fact that only account ownership is not serve the ultimate goal of financial inclusion, the other aspects of the financial inclusion are equally important in order to gain a clearer picture of the scope of financial inclusion in the country. In a study conducted by World bank on rural India, it is found that about only two fifth of household have deposit account, one-fifth have an outstanding loan and while only fifteen percent are availing any insurance facility. (Basu, 2006). (Rajan, 2009)

CRISIL Inclusix exclusively measures the degree of financial exclusion (inclusion) in India, of which the first volume was published in 2013. The index computed by using penetration of bank branches, deposit, credit and insurance services dimensions to compute the financial inclusion in the country as a whole. India received a total score of 58.0 on a scale of 100 in 2016.

**Figure 1.6: CRISIL Inclusix Score of Different Dimension For India (2010-2016)**




*Source: CRISIL Inclusix Volume 4. February 2018*

Figure 1.6 depicts the scores for various dimensions of the financial inclusion index in India, revealing a notable improvement in the dimension of deposit penetration, which has been primarily spurred by the scheme known as the Pradhan Mantri Jan Dhan Yojana (PMJDY). Similarly, other dimensions have also demonstrated strong growth during the past year. In figure 1.7, the level of financial inclusion for all the states and union territories is depicted on a map of India for the year 2016.

Among the states and union territories of the country, there is a significant difference in terms of financial inclusion as per the CRISIL Inclusix report. The states in the southern and northern region are comparatively better off in terms of financial inclusion as in 2016. The eastern and western regions are moderate while the majority of the state in north-eastern region are having very low financial inclusion.

**Figure 1.7: Level of Financial Inclusion in India (2016)**

*Source: CRISIL Inclusix, Volume 4, February 2018*

## 1.5 Financial Exclusion in Jammu & Kashmir

Jammu and Kashmir is the North Western State (now Union Territory) of India. As per Census of 2011, the population of the J&K state (including Ladakh region is 125 crores. Politically, Union Territory of J&K is divided into 20 districts of which 10 are in Jammu division and 10 in the Kashmir division of the UT, while the Ladakh region (now a distinct UT) has 2 districts. As far as banking sector is concerned there are two lead banks i.e., Jammu & Kashmir Bank which act as lead bank in 12 districts (Kashmir Division's and 2 Jammu's Districts) and State Bank of India in remaining 8 districts of Jammu region and two district of Ladakh region. Only one district in Jammu & Kashmir is in the top one hundred districts in terms of financial inclusion, according to CRISIL Inclusix 2018. In terms of financial inclusion, the Jammu district of J&K ranked 81$^{st}$ out of all districts in the country, while all other districts ranked significantly lower. Even the majority of research on financial inclusion in India did not include Jammu & Kashmir to determine the region's level of financial inclusion.

## 1.6 Rationale of the Study

Taking into account the available literature and the significance of financial inclusion, it is essential to evaluate the performance of a country or region in achieving financial inclusion. Numerous studies on this topic have been conducted throughout the world. In terms of financial inclusion, there are considerable discrepancies not only across nations, but also within countries. In addition, numerous studies have been undertaken in the Indian context to measure financial inclusion, but only a handful have taken into account all the states and union territories. Regarding the state (now UT) of Jammu & Kashmir, there is no single study that measures the state's financial

inclusion progress. This will be the first study of its kind to encompass the calculation of financial inclusion for Jammu and Kashmir as well as evaluate the effectiveness of important efforts in the field of financial system. In addition, it will aid in bridging the research gap in the multitude of academic writing, and it will be useful for comprehending regional variations within the state. With this context in mind, the purpose of this study is to evaluate the progress of financial inclusion in this region of the country, as well as to cover all relevant dimensions of financial inclusion and compute the extent of financial inclusion for each district across the state using the financial inclusion index.

## 1.7 Objectives of the Study

The primary focus of this research is to examine the progress of financial inclusion measures specifically in Jammu and Kashmir. Broadly study is being formulated with the following objectives:

- To assess the progress of commercial banking sector in India with special reference to Jammu and Kashmir.
- To illustrate the implementation and achievements of the initiatives related to financial inclusion generally in India and particularly in Jammu and Kashmir.
- To compute the status of financial inclusion in all the districts of Jammu and Kashmir over the time using financial inclusion index.

## 1.8 Strategic Enquiry

The present research is based on the secondary sources of data which has been availed from different official sources of banking sector stakeholders and government

published reports. To fulfill the objectives of this research, different techniques have been applied to come up with the clear picture in this context. A detailed descriptive analysis has been provided for various aspects related to the financial inclusion in India as well as in Jammu and Kashmir.

Jammu and Kashmir's financial inclusion has been calculated using an index that examines several factors associated with it and then delivers a numeric value between 0 and 1 that represents the precise level of financial inclusion in each district. Further explanation on the tools and techniques related to the index has been discussed in detail in the respective chapter.

## 1.9 Data Sources

It is also essential to identify the data sources incorporated into this study related to financial inclusion. The Reserve Bank of India (RBI), which disseminates annual data on all banking indicators such as bank branch statistics containing data on the availability dimension of financial services, is the primary source of data utilised in this report, especially as it relates to the banking system. Basic Statistical Returns (BSR) annual for both credit by SCBs and deposit with SCBs contains information related to the statistical information of bank accounts and the volumes of credit and deposits, which aids in measuring the penetration and usage dimensions of IFI, respectively. All the relevant data on demographic indicators extracted from Census of India’s online portal. Population projection is being made using ratio method for all the districts. Data on GSDP and GDDP is accessed from Economic Census Digest published by directorate of Economics and statistics, Department of Finance, J&K.

Jammu & Kashmir State Level Bankers Committee agenda files are also accessed for information on progress of baking sector in Jammu and Kashmir.

## 1.10 Limitations of the Study

There are a number of important constraints allow for more study to be done. The majority of the essential data and information for the study was gathered from secondary sources. Consequently, the study is subject to all limitations inherent to secondary information or data. The focus of this study is limited to the aspects of financial inclusion particularly for the Jammu and Kashmir. Thus, it may not be possible to generalize from this study outside the study area. Further, the study is confined to the commercial banks and excluded all the other banking entities. Another significant limitation of this study is that its applicability is restricted to the period between 2011 and 2021, mostly due to a dearth of relevant data on key banking system parameters.

## 1.11 Scheme of the Study

The present study has been categorised into five different chapters as follows;

The first chapter is basically introductory in nature which comprises, background of the study, importance of the study, research objectives and limitations of the study.

The second chapter is devoted to existing literature assessment, which finally aids in identifying research gaps and conceptual explanations in the subject of financial inclusion.

The third chapter describes the development of the financial network in India, with particular emphasis on Jammu and Kashmir.

The Forth chapter discusses the implementation and achievement of initiatives related to financial inclusion generally in India and particularly in Jammu and Kashmir.

The fifth chapter is based on the financial inclusion index, in which financial inclusion has been computed for all Jammu and Kashmir districts.

This study concludes with the sixth and final chapter, which discusses the implications of the research for policy making and the potential for future research.

# 2 Review of Literature

The primary focus of review of existing literature is to analyse and evaluate previous research in a particular area. It shows where previous studies have fallen short and where new studies can shed light, providing a roadmap for future studies. On the topic of financial inclusion, numerous studies have been conducted around the world, and a review of these studies offers a clear illustration and identifies a need for future research, which eventually aids in the formation of this study to fill that gap.

The existing literature that has been reviewed in this research includes research articles from renowned journals, reports of different government organisations, book chapters and speeches of renowned experts in the area of this field of research. The theme of the literature is distinguished in the nature and covers all most all the important aspects related to financial inclusion.

The majority of the researches that have been reviewed and included in this research are from the past 15 years, illustrating the global, cross-national, and Indian landscape of financial inclusion. The computational methods of financial inclusion are also the subject of several of the articles and studies. Moreover, the researches that emphasised the significance of financial inclusion and its relationship to other significant macro-economic indicators, such as economic growth, unemployment, poverty, and financial stability are also being reviewed.

**(Khan et al. 2022)** This study is basically a review-based introspection on nexus of financial inclusion and financial literacy. It carries out a mapping and content analysis from a sample of more than 10 thousand studies which were conducted on more than 8.5 lakhs individuals worldwide over the last 45 years. The study concluded that

financial literacy acts as backbone to the agenda of financial inclusion. despite the fact that every economy is hitting hard to achieve the maximum bound of financial inclusion, still 1.7 billion individuals are accessing the formal financial services worldwide. The authors recommended the researcher to focus more on developing economies as there is still a significant lag in attaining the financial services. This study established a precedent for future researchers to adopt a methodology that generates unanswered research questions that can form the basis of future studies.

**(Feghali, et al. 2021)** This article discussed the international evidences in finding the negative impacts of credit inclusion on bank soundness using comparable cross-country data available since 2011 on the demand for different financial services. The study added to the body of research showing how the structure of the banking industry may influence the incentives for taking risks and shown that a more competitive market makes the potentially detrimental impact of credit inclusion on stability even larger. Authors demonstrated that the non-credit inclusion in the form of access to savings and payments has no effect on banks performance. They suggest for prioritising financial service activities and advancements in the deposits and financial transactions arena as these are the most potential areas for raising low-income households' and enterprises' savings, offering safety and greater returns than cash alternatives, and promoting risk sharing. The researchers have also highlighted the importance of financial literacy as it is an essential component in promoting savings among the financially included section of the society.

**(Pradhan et al, 2021)** The researchers analysed and examined the relationship and short-run and long-run dynamics between financial inclusion, ICT infrastructure and

economic growth specifically in the context of India. The study has covered the 20 states of the country for a span from 1991 to 2018. The researchers used Granger-causality test technique to study the correlation of these variables in the short and long run and results have shown that in the long run, there is a significant impact of economic growth and financial inclusion on the ICT infrastructure and there is no long run causality that flows from financial inclusion and ICT to economic growth. The empirical results show that all the three variables taken into consideration are strongly interdependent in the states of India where one variable plays and effective role in the advancement of the other.

**(Emara & Said, 2021)** This article examined the empirical link between financial inclusion, economic development and governance in the Middle East and North Africa. A system General Method of Moments (GMM) dynamic panel model approach has been used to yearly data for 44 emerging markets (EMs) and MENA region over the period 1990–2018, using a variety of metrics of financial inclusion to demonstrate the families and companies access to finance. Specifically, the study utilises indicators such as the number of bank accounts (per 1000 adult population), bank accounts for corporates/enterprises, the number of bank branches and ATMs (per 100,000 people), the percentage of firms utilising banks to finance investments, and the percentage of firms utilising bank loans to finance working capital. According to the findings of the research, financial inclusion has a favourable effect on the development of GDP per capita in the chosen nations. As a strategy to promote per capita growth, the findings highlight the significance of private sector development, better institutional quality, and increased company access to financing.

**(Aziz & Naima, 2021)** The fundamental purpose of this study is to identify the obstacles that prohibit rural populations from using digital financial services, leaving them financially disadvantaged. The study is being done on the Bangladeshi island of Moheskhali to determine the relationship between digital finance and financial inclusion. The research findings revealed that digital services have facilitated and bridged the gap between physical and digital access to financial services, and have developed more rapidly. It is identified that lack of sufficient income and trust deficit in service providers are the most significant obstacles to financial inclusion. The authors suggested that the objective of financial inclusion be accorded sufficient weight in the government's policy framework and the digital financing process should be strengthened.

**(Sawadogo & Semedo, 2021)** uses a finite mixture model to a sample of 28 sub-Saharan African nations to examine the effect of financial inclusion on income inequality from 2004 to 2016. They hypothesise that the impact of financial inclusion on income inequality varies among groups of countries with comparable but unobserved features. Findings indicate that the effect of financial inclusion on income inequality differs across two separate groups of nations. In addition, they demonstrate that nations with strong institutional quality are more likely to be in the category where financial inclusion decreases income disparity. The results have passed a battery of robustness tests. If sub-Saharan African nations want to realise the advantages of financial inclusion, they must improve their democratic settings and institutions, as shown by these results.

**(Kumar, et al. 2021)** using a sample of 122 Japanese banks from 2004 to 2018 to answer the question of financial inclusion and its impact on banks profit ability. They observe that the number of loan accounts and automated teller machines (ATMs) have little effect on bank profitability. Also, cost management, credit risk management, and bank size are the most influential bank-specific determinants on profitability. It has been suggested that small banks are more profitable than large banks and perhaps small size allows banks to focus on profitable segments. Among the country-level control variables, they found that banks in Japan perform better during inflationary and high-growth periods.

**(Vo, et al. 2020)** explores the relationship between financial inclusion and financial market stability using a sample of 3071 Asian banks from 2008 to 2017. Using generalised method of moments (GMM) strategy, findings demonstrate that a higher degree of financial inclusion as a result of giving access to banking facilities contributes considerably and favourably to the stability of the banking system, resulting in stronger bank resilience. Financial inclusion may assist banks in increasing income, decreasing expenses, and expanding market share. To establish the validity of results, which demonstrate a positive and substantial contribution of financial inclusion to macroeconomic stability in Asian nations, they analyse a variety of alternative scenarios. By increasing savings and investment, findings indicate that financial inclusion functions as a lubricant for the overall economic system. In addition, an inclusive financial system serves as a conduit for pro-poverty government initiatives that aid in the eradication of poverty amongst families. Findings also suggest that rural families' increased savings and deposits might help banks fund their lending activities.

**(Omar & Inaba, 2020)** This study intends to examine the positive impact of financial inclusion in minimising the economic income inequality and poverty specifically in the developing economies. The study covered 116 developing economies of which 36 from Asian region, 27 from Latin America and the Caribbean and remaining countries from the African region. For this study, a composite financial inclusion index had framed by using three basic dimensions of financial services of penetration, usage and availability. in the empirical results, it is found out that higher per capita income economies experience better financial inclusion. Findings on the impact of financial inclusion on poverty shows that countries with better financial inclusion have lower poverty rate and financial inclusion also inversely related with the income inequality in the concerned developing economies. Likewise, real GDP and the ratio of internet users positively influenced the financial inclusion in the economy. Based on the findings of this research, the authors recommended important policy implications like, providing suitable financial product to the targeted masses and mutual cooperation of all the stakeholders of financial sector in developing financial infrastructure and network.

**(Ozili, 2020)** In this paper, the author provided a comprehensive overview of worldwide research on financial inclusion and acknowledges the emerging themes in the literature related to the concept of financial inclusion by reviewing the literature on financial inclusion both on a country or region-specific level as well as the most recent development in the field of literature. Additionally, the author drew attention to the systemic risks posed to the formal financial system by optimal and excessive levels of financial inclusion. The study also discussed the major issues with the financial inclusion scenario, such as the problem of inactive users of financial services, extreme financial inclusion, the use of proxies and assumptions in financial inclusion models,

the identification problem with the excluded section of the population, the lack of bank cooperation, and macro financial instability. The author concluded in the findings that the effectiveness of financial inclusion is heavily influenced by significant economic concerns such as poverty, financial innovation and literacy, financial stability, and the regulatory system. The author suggested that future academics should investigate the effect of a country's politics on the success or failure of financial inclusion programmes as well as the kind of policies and regulations that can promote financial inclusion.

**(Tarique, et al 2020)** This study sought to determine the status of financial inclusion in the Aligarh district of Uttar Pradesh. For this study, 100 PMJDY bank account-holding households from three villages in the Lodha and Atrauli blocks of the Aligarh district were selected using stratified random sampling for a primary survey. The study examined the three essential elements of financial services accessibility, financial literacy, and poverty condition of account holders, as well as gender and caste disparities among PMJDY beneficiaries. In terms of financial literacy and MPI, the survey indicated that there is a considerable gender and caste disparity, with women and members of the Scheduled Castes performing the lowest. The survey also indicated that beneficiaries from OBCs and SCs are highly dependent on the informal finance sector for their financial needs.

**Ajefu et al. (2020)** With the aid of a reliable instrumental variable method and the Insight2Impact (i2i) GIS interface, they conducted an analysis using data from the 2015–2016 Nigerian General Household Survey (GHS), matching it with georeferenced financial services data. In this analysis, the household's distance from the closest financial institution served as the instrument for financial inclusion. The

empirical finding shows that financial inclusion has a strong beneficial influence on mental health since it raises mental health levels and/or reduces the risk that depressed symptoms would be reported. Along with this, they pinpoint the ways in which (a) food expenses, (b) remittances, and (c) risk-coping strategies have an impact on mental health. This empirical investigation has been broken down to demonstrate the varied effects of financial inclusion on people's mental health, both in rural and urban settings. According to the study's findings, families and rural residents are disproportionately impacted by financial inclusion. The fact that financial inclusion may be seen as a crucial strategy in addressing or reducing the occurrence of depressive symptoms in Nigeria, particularly when it comes to rural families, is a significant implication of this study.

**(Datta & Singh, 2019)** examine the financial inclusion situation in numerous developed and developing nations between 2011 and 2014. The emphasis of the research is on constructing a financial inclusion index (FII) and examining its relationship with the human development index. It also focuses on the cause for observed FII variance. Utilizing the principal component approach, the three-dimension indices (availability, access, and use) and FII have been calculated. A pooled OLS with clustered standard error regression model was employed to describe the global determinants impacting financial inclusion. In terms of spreading financial facilities or banking services to the majority of its inhabitants, they conclude that comparably less developed nations have yet to acquire a high position. What seems to be of more concern is that the value of FII has decreased in the majority of nations throughout the time under study. Observations also reveal a favourable association between FII and HDI levels. This supports the notion that as income, education level, and health

improve, so do people's knowledge of and desire to take advantage of financial opportunities.

**(Le, et al. 2019)** explores the development of financial inclusion in Asia, as well as its effects on financial efficiency and sustainability. For this goal, the research uses a sample of 31 Asian nations from 2004 to 2016 for its analysis. On the basis of data that have been standardised, composite indicators for the three financial dimensions are generated using principal component analysis (PCA). Findings argue that the patterns vary from country to country and that, in some instances, there is no discernible pattern. The results are strong across a variety of normalisation methods. Furthermore, using Feasible Generalized Least Squares (FGLS), the effect of financial inclusion on financial efficiency and sustainability is analysed. The estimate findings reveal that expanding financial inclusion has a negative impact on financial efficiency but a positive impact on financial sustainability. The results are consistent throughout the whole sample and the two subsamples of nations with varying income levels. This means that, although there are policy synergies between expanding financial inclusion and preserving financial sustainability, the side impact of financial inefficiency associated with expanding financial inclusion requires careful consideration.

**Cabeza-Garcia et al. (2019)** They have analysed the impacts of female financial inclusion on economic development using data from both industrialized and emerging economies. Financial inclusion, which refers to the accessibility and utilization of a broad variety of high-quality financial goods and services, helps lessen income disparity. More specifically, when women engage in the financial system, the inequality gap closes, allowing for more economic growth that enhances both social and physical

well-being. The evidence shows that the gender gap in financial inclusion, which is defined as having access to the financial system, has a negative effect on development. In other words, the engagement of women in the financial system enhances both economic and social prosperity internationally. They took into account three important aspects of financial inclusion to solve this problem: access to a bank account, access to credit, and payment methods. They discovered that two of those factors—access to a bank account and access to a credit card—were crucial for understanding how economies evolve. Access to a formal loan, on the other hand, is less important when describing this connection. Since the availability of economic money in the immediate term seems to be more significant for personal growth and entrepreneurial initiative, the combination of the bank account and the credit card functions as a good signal for female financial inclusion. Thus, their primary finding affirms the necessity of encouraging financial literacy among women in both emerging and developed countries, increase their financial inclusion. Efforts must be made to persuade banks and financial institutions to improve financial services for those sectors that are prioritized, assist women and the underprivileged in increasing their income and wealth, and achieve inclusive growth.

**(Barik & Sharma, 2019)** In this research, the writers attempted to analyse India's success in the process of financial inclusion as well as its future possibilities. this study is being done by utilizing data from the Reserve Bank of India (RBI), the Global Findex database, and the Financial Access Survey (FAS). The authors reviewed the most recent major initiatives of financial inclusion in India, with a particular emphasis on the Pradhan Mantri Jan Dhan Yojana (PMJDY) and digital financial services. It is determined that with the adoption of PMJDY, there has been a considerable

improvement in account opening, as well as a rapid increase in digital financing, especially in the post-demonetisation period. The authors advocate further strengthening the process of financial inclusion in the country, particularly by focusing on financial literacy and digital infrastructure, which would assist to realise the true essence of financial inclusion in India.

**Kabakova, O., & Plaksenkov, E. (2018)** by examining which combinations of environmental variables may cause high access to financial services, researchers have created a novel study that links the phenomenon of financial inclusion with ecosystem development. They used fsQCA to analyses the ecosystems of 43 different nations in order to identify the configurations of ecosystem elements that promote financial inclusion and those that do not. According to results, there are three Combinations of factors that have an impact on financial inclusion include strong socio-demographic and political factors in the lack of economic growth and high social, technical, and economic factors in the absence of political considerations. The lack of social and economic elements in the context of political and technical advancement is one of two configurations that affects financial exclusion. The findings have consequences for national policy. It adds to the academic literature in three ways: first, by providing a summary of the current understanding of financial inclusion; second, by introducing the relationship with ecosystem theory; and third, by setting the bar with fsQCA analysis used on data related to financial inclusion and ecosystems.

**(Chen, et al, 2018)** the article highlighted the issues related to commercial banks on the ground of non-performing loans specifically in the scenario of China and also discussed the possible correlation between non-performing loans and financial

inclusion and the analysis is carried out using panel data model for the time period of 2005-2016 and also applied fixed effect model for empirical results. The authors came up with the conclusion that the financial inclusion is inversely related to non-performing loans and the non-performing assets also impacts the development of the financial sector and also lowers the quality of banking. The authors recommended to make full use of the financial inclusion and promote the efficiency of regional capital flows, which will be helpful in achieving sustainable economic development as well as financial sector development.

**(Nimbrayan et al 2018)** this paper basically reviewed the status of a scheme initiated by the Government of India to promote financial inclusion countrywide. The Pradhan Mantri Jan Dhan Yojana (PMJDY) started in the year 2014 and boosted the strength of financial services beneficiaries significantly. The paper provided the phase wise achievement of the scheme and also discussed other related initiatives related to financial inclusion. overall, the study only provided a partial reality by only discussing the beneficiaries added under the umbrella of the said scheme and neglect the other aspect of the scheme which are related to usage of such accounts and also the infrastructural setup impediments for smoothen process of banking system in the country.

**(Siddik & Kabiraj, 2018)** This study empirically examined the relationship between financial inclusion and financial stability from 2001 to 2013 using panel data. Financial stability is considered the dependent variable in the study, whereas financial inclusion is the independent variable. According to the study's findings, financial inclusion has a favourable effect on financial stability. Indicators like as GDP per capita, the ratio of

liquid assets to deposits, and the interest rate are also seen to have a positive relationship with financial stability, whereas domestic credit to private enterprises has a negative relationship. This report advised policymakers to eliminate barriers to SME access to bank financing, such as the necessity for collateral, limited credit amounts, and business track records. Moreover, the author argued that adequate oversight by stakeholder authorities is a critical element of financial stability.

**Li, L. (2018)** The study demonstrates that anxiety over relative income considerably encourages impoverished households to request for bank credit using the data set from the Chinese Household Finance Survey. One explanation for the impact of salary comparisons on credit applications is a desire to keep up with the Joneses either a tunnel effect, in which the poor are forced to finance expensive purchases in order to mimic the wealthy's consumption habits and endure continuous poverty, motivated by the economic success of the wealthy and educated to use credit for investment. This analysis shows that credit applicants invest much more in human capital than non-applicants and that the "tunnel" effect is the main inducement for relatively poor households to participate in the economy, despite the lack of empirical evidence of a "keeping up" impact. Finance can be used by poor households to lift themselves out of poverty.

**(Ozili, 2018)** In this research article, researcher examined the impact of digital finance financial stability and financial inclusion and its benefits to the demand side and supply side entities of financial services, economy and the government. The article basically addressed all the issues related to digital finance as it helps in the accessibility of financially excluded section of the society. It is argued that digital finance helps in

expansion of financial services to the sectors which are disconnected from the financial sector but meanwhile the digital finance doesn't be able to serve the masses who have no digital devices. It furthers enhanced the benefits of digital finance like, easily and quick receive and making of payments, reduction in circulation of fake money and boost to the GDP of the digitalized economies. Besides, it also highlighted the issues of drawbacks like, limitations of internet connections, voluntary financial exclusion, cyber security and systematic black-swan risks.

**(Meldina Kokorovic Jukan, 2016)** In this study, the researcher investigated a comparative analysis of financial inclusion in six developing regions namely Eastern, South and Central Asia, Latin America, Sub-Saharan Africa and the western Balkan by using the World Findex database. He took five important indicators which are, formal account, formal saving, formal borrowing, debit card holding and mobile account usage for measuring the financial inclusion in different developing regions and also compared it with the high-income countries. The researcher found out that for formal account holding and formal savings indicator, Eastern Asia remains at the top among the regions with 69 and 36 percent of population above 15 years of age respectively. The western Balkans region leads in Formal borrowing and Debit card holding indicators with 14 and 45 percent of population respectively. For the mobile account holding indicators Sub-Saharan Africa is at top with 12 percent of its population. He recommended various steps to both demand as well as supply end to promote financial inclusion like financial literacy, affordable interest rates, digital platforms for financial transactions.

**(Sarma, 2016).** This study specifically determined the trend of financial inclusion for 136 countries around the world over a time period of ten years (2004-2014) using

financial inclusion index designed by the author itself. The index is constructed using three dimensions of financial inclusion consisting various indicators of financial services like, number of bank accounts, number of bank branches, number of ATMs outlets and volume of deposits and credits with in a country. In the study, a comparison is also made for the variable of income, where countries were divided into low-income, lower-middle income, upper-middle income and high-income classes. The study revealed that, generally there is an improvement in financial inclusion among all the countries irrespective of their income categories but in spite of some exceptions, countries having better level of income are comparatively more financially inclusive than the countries falling under lower income segment.

**(Mukhopadhyay, 2016)** the author examined the status of financial inclusion across the 22 states of India for the demand side perspective of financial inclusion. For this study, micro level data has been used by computing an index of financial inclusion using the dimension of accessibility, availability and usage of financial services. Based on the data, it is found that Goa is the top performer in terms of demand side perspective of financial inclusion while states of North-eastern region, Odisha and Bihar have a low performance ae per financial inclusion index. The author suggested to improve the conditions for better accessibility of financial services in the states like Uttar Pradesh, Uttarakhand and Himachal Pradesh and also ease the availability of suitable saving products to inculcate the habit of saving among the masses particularly in rural areas.

**(Iyer, 2015)** In the article, the author critically examined the accessibility and usage of financial services in India. As India's banked population has increased over the years, the utilisation of financial services has deteriorated. It is discussed that among the

account holders, only 11 percent had savings and only 8 percent took loan. The author reviewed the reports of various committees on financial services related issues and concluded that a significant proportion of population especially in rural areas are not able to use the financial services effectively. Further, it recommended to focus not only of opening of bank account but also to rethink the measures of financial services more inclusive and inculcate the habit of saving and other financial services among the masses.

**(Amidžić et al, 2014)** In this paper, the authors construct an index of financial inclusion using Financial Access Survey (FAS) database of IMF. This study is basically a designated index construction which would be helpful in measuring financial inclusion of any economy or cross-country variation. It took the variables like number of ATMs per 1000 sq kms, number of bank branches per 1000 sq kms, total number of depositors and borrowers per 1000 adults. Further, the variables were grouped into two different dimensions of outreach and usage of financial services The next step which is conducted is normalisation of variables and weight assignment followed by a composite index. This index has some better technique unlike the other some indices like the identification of dimension and proper weight assignment which presented various possible avenues for further research.

**(Rajani Gupte et al. 2012)** This paper primarily aims to compute an index of financial inclusion which incorporate all the important dimensions and explore the determinants that measure the extent of inclusion specifically in the context of India. This study also explained the drawback of earlier indices and contribution of this study to the existing literature. It took the dimension of outreach, usage, ease of transactions and cost of

transaction into consideration and also compare the results with the earlier established indices of financial inclusion. In the later stage of the study, the authors also discussed the important initiatives of financial inclusion which are taken in India by the financial sector stakeholders.

**(Pais & Sarma, 2011)**. This study attempted to discuss the financial inclusion and human development nexus for 49 countries using financial inclusion index and human development index for the year 2004. In the latter section of the paper, a regression analysis is drawn to show the effect of factor associated with financial inclusion like, socio-economic, infrastructure and banking variables on financial inclusion. Financial inclusion index is computed using three dimensions namely, penetration, availability and usage of banking services. It was found out that notwithstanding some exceptions, countries with high level of human development as per HDI value were also scored well in financial inclusion index as the correlation coefficient between the two was found statistically significant. Among the factor associated with financial inclusion, empirical analysis shown that factors like per Capita GDP, infrastructure and connectivity are positively related with financial inclusion while banking sector variables which took into consideration like, NPA, CAR, foreign ownership and interest rate were not significantly associated with financial inclusion. It is suggested that policy makers should rely more on national banks than foreign banks for more inclusiveness in an economy.

**(Chattopadhyay, 2011)** in this study, the author extensively measured the level of financial inclusion in most of the states of India from the year 2006 to 2009. A survey-based study is also conducted for the districts of East Midnapore, Birbhum and

Murshidabad of west Bengal state related to financial inclusion and usage of financial services. For measuring the financial inclusion among different states in India, the author considered the dimensions of penetration, availability and usage of financial services where each dimension covered major financial services indicator like, number of deposit and credit account under penetration dimension, number of bank branches and ATMs outlets for availability dimension and volume of credit and deposit as the proportion of respective gross state domestic product for the dimension of usage of financial services. Further, the findings of index of financial inclusion categorised under three headings of high, medium and low financial inclusion. the state of Maharashtra and Karnataka were categorised as high financial inclusion, Kerala, Tamil nandu, Andhra Pradesh, Punjab and Himachal Pradesh were medium financially included while, other states were under low financial inclusion category with Manipur, Nagaland and Assam at the bottom of the ranking. In the result of survey study, the average monthly income of the household is 3530.1. More than 61 percent of the household had opened an account with formal financial institution in the districts of West Bengal while 38 percent of the respondent felt that they don't have enough income to open an account with the bank.

**(Kempson E., 2006)** In this work, the author highlighted the major issues linked with global financial exclusion. The author examined the existing practices and policies pertaining to financial inclusion in developed economies and proposed a framework for developing nations to better implement the financial inclusion approach. It discussed the major impediments in the way of financial inclusion both from the supply side and demand side as well like, refusal by banks, identity requirement, bank charges, terms and conditions, social security payments, religious and cultural barriers, trust deficit

and physical access problem. To improve the accessibility and availability of financial services, it was recommended to provide no-frills accounts at affordable cost, technological development and financial literacy should be provided to minimise the impediments.

# 3 Progress of Banking Sector in India

The achievement of financial inclusion in any economy is contingent to the structure and vitality of its banking sector. As a matter of fact, India is the second-most populous country in the world, and incorporating such a large section of the population into the formal financial system requires a well-structured and scattered banking sector. The distribution of the banking sector in the country varies between and within the states. With keeping all these aspects into consideration, this chapter is designed to discuss the trend of growth of banking sector, generally in India and particularly in Jammu & Kashmir.

As the real economy is dynamic, it is essential that the banking system is adaptable and competitive in order to accommodate the many objectives and demands of the economy. From the standpoint of financial inclusion, an expanded and well-structured system is prerequisite to reach out for the availability of financial services to excluded parts of society. In this light, the Indian financial system has both the necessity and the potential for continued expansion in its strength.

Over the years, a vast network of banking institutions has been developed in order to make financial services accessible to financially excluded section of the society. People's requirements for financial services are met through a well-structured financial system comprised of commercial banks, regional rural banks, urban co-operative banks, primary agricultural credit organisations, and post offices. In addition to MFIs, self-help groups (SHGs) fulfil the financial service needs of the poorest segments. In addition, development of the institutional framework in recent years has focused on new models of expanding financial services involving credit

dispensation through multiple channels, including civil society organisations (CSOs), non-government organisations (NGOs), post offices, farmers' clubs, and panchayats as business facilitators/correspondents. Additionally, certain financial products were designed to promote financial inclusion.

This chapter designed to deal with the expansion of availability of financial services in India as well as in Jammu and Kashmir over the time. The study basically focused on the commercial banks and their role in promoting financial inclusion, that is the reason that other banking structures are not took a place in this discussion.

## 3.1 History of Banking Sector in India

It is vital to evaluate the Indian banking system in order to enable the banking sector to meet the needs of a developing and globalising economy and to promote financial inclusion. The existing banking structure in India, which has grown over several decades, is complex and has served to meet the credit and banking services requirements of the economy; there are multiple layers to meet the distinct and diverse demands of different consumers and borrowers. Undoubtedly, India's banks have been instrumental in the mobilisation of savings and the promotion of economic growth. Throughout the previous few decades, numerous Committees[1] on the Indian banking industry have permitted major improvements in the then-current banking environment. Since then, the sector and its surrounding economic environment have seen continuous and gradual transformations, accompanied by changes in the

[1] Committee on Financial Sector Reforms (Chairman: Shri M. Narasimham) 1991; Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) 1998; Report of the Committee on Fuller Capital Account Convertibility (Chairman Shri S.S. Tarapore) 2006; and Report of the Committee on Financial Sector Reforms (Chairman: Shri Raghuram G. Rajan) 2009.

structure of financial markets that are orders of magnitude distinct from those of the past.

Prior to 1991, India had nationalised a significant portion of its banking industry. The government nationalised banks with deposits exceeding Rs. 50 crores in 1969. It possessed control over 80 percent of bank branches. In 1980, the government nationalised six additional banks with deposits exceeding Rs. 200 crores. Approximately ninety percent of all banks were under government control, and this proportion remained relatively stable during the time period from 1980 to 1991. The geographical penetration, coverage density, and the number of bank branches increased significantly and banks also experienced significant increase in deposits and credit as priority sector financing increased from 14 percent to 41 percent over this time period.

By 1991, however, banks' efficiency and productivity had dropped, while the quality of their customer service and their profitability were dismal (Kumar A. , 2018). When the government liberalised the economy in 1991, it also implemented several financial reforms. In 1991, the Committee on Financial Systems, chaired by M. Narasimham, recommended to reduce the Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) to free up bank resources, depend on market forces to determine the interest rates, making it easier for private and foreign banks to enter to increase competition, and reducing the number of public sector banks by a substantial amount (PSBs). Several of the committee's recommendations were followed, including the decrease of SLR and CRR, the introduction of a market-determined interest rate, and the establishment of foreign and new private sector banks.

In 1998, the Committee on Banking Sector Reforms, again led by Mr. Narsimham, suggested an additional set of banking sector strengthening measures. It evaluated the progress of current measures and suggested further legislative, capital sufficiency, and bank merger measures. In addition to these recommendations, the 1998 Committee also advocated for improved technology usage, skill training, and professional management of institutions. Since 1991, a number of these changes have strengthened and enhanced the performance of India's banking system. As an illustration, the quantity of credit issued by the banking sector grew from 51.5 percent of GDP in 1990 to 53.4 percent of GDP in 2000.

During the 2000s, a number of committees pertaining to banking reforms were established, and more changes were implemented gradually. In its recommendations, the Committee on Financial Sector Reforms addressed India’s macroeconomic and regulatory frameworks, financial inclusion, and domestic financial development. The Committee to Review Governance of Bank Boards in India (P.J. Nayak Committee) was also established in 2014. Its primary suggestions centered on improving the administration and management of India’s public sector banks, which continued to play a significant role in the country's banking system.

## 3.2 Structure of Banking Sector in India

According to Robinson, A healthy financial system’s fundamental function is to provide a link between savings and investment for the creation of wealth and to permit portfolio adjustments in the composition of existing wealth. At the time of independence, the formal banking sector of India was very under-developed. The scenario of absence of availability of financial services has been assessed by looking

at the statistics that there was one branch for every 1.36 lakh people in the country in 1950 (Mani, Financial Inclusion in India- Policies and Programmes, 2015). The current banking structure in India, which has developed over decades, is comprehensive and serves the credit and banking service requirements of the economy. Multiple layers exist in the modern banking organisations in order to meet the distinct and diverse needs of customers and borrowers. The banking system had a significant role in the mobilisation of savings and promotion of economic growth. In the period following the financial sector reforms of 1991, the performance and resilience of the banking structure increased noticeably. The Indian commercial banking system looks good compared with those of the majority of developed and developing nations[2].

The present banking system in India, which has grown over several decades, is complex and has served to meet the credit and financial services requirements of the economy; there are several levels to meet the distinct and diverse demands of different consumers and borrowers. Undoubtedly, India's banks have been instrumental in the mobilisation of funds and the promotion of economic growth. Throughout the previous three decades, many Committees[3] on the Indian banking industry have permitted major improvements in the financial environment. Since then, the banking sector and its surrounding economic environment have undergone continuous and progressive transformation, with corresponding changes in the structure of financial markets that are now orders of magnitude different from those of the past.

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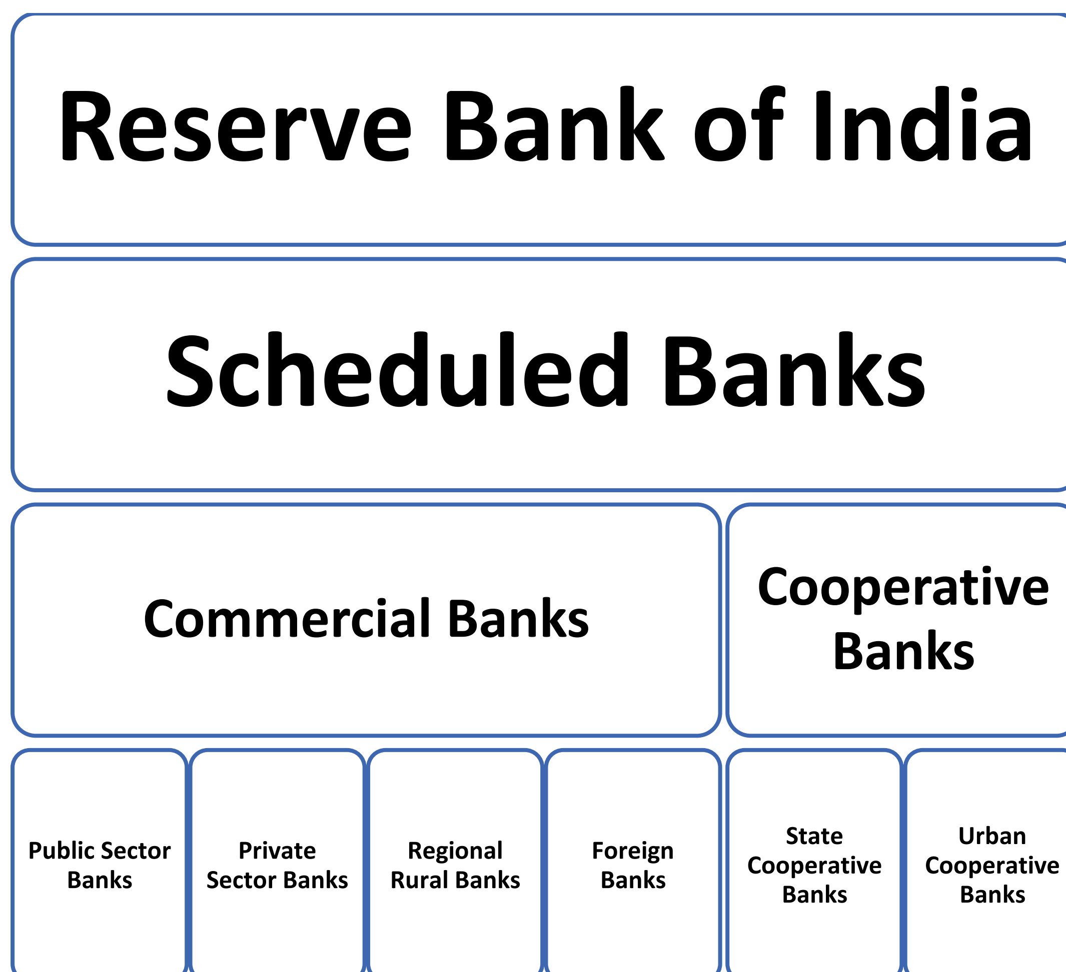
[2] Banking Structure in India - The Way Forward, Discussion Paper, Reserve Bank of India,2013

[3] Committee on Financial Sector Reforms (Chairman: Shri M. Narasimham) 1991; Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham) 1998; Report of the Committee on Fuller Capital Account Convertibility (Chairman Shri S.S. Tarapore) 2006; and Report of the Committee on Financial Sector Reforms (Chairman: Raghuram G. Rajan) 2009.

The Reserve Bank of India Act of 1934 classifies banks in India as either scheduled or non-scheduled. Scheduled banks are financial institutions included in the Second Schedule of the RBI Act of 1934. Non-scheduled banks are those that have not been listed in the Second Schedule of the Act. Scheduled banks have a paid-up capital and reserves of a total value of at least 5 lakhs and satisfy the Reserve Bank of India that their affairs are being conducted in the interest of depositors. Scheduled Commercial Banks and Scheduled Cooperative Banks make up the Scheduled Banks.[4]

**Figure 3.1 Classification of Scheduled Commercial Banks in India**




[4] Reserve Bank of India official website

The Scheduled Commercial Banks are further subdivided based on ownership and operating type. These include the public sector banks, the private sector banks, the foreign sector banks, and the Regional Rural Banks (RRBs). As of November 2021, India has 12 public sector banks, 22 private sector banks, 43 regional rural banks, and 46 foreign banks[5].

Public sector banks are banks in which the government holds majority control. These banks are further separated into two groups: nationalised banks and the SBI and its affiliates[6]. Nationalized banks are banks that were originally privately owned but were brought under government control following the nationalisation of banks by the Indian government in 1969 and 1980. Earlier in 1955, the SBI was nationalised by the SBI Act of 1955. In 1960, the affiliate banks were nationalised. IBA (Indian Bank Association) issued Performance Highlights of Public Sector Banks, 2015-2016, which lists 27 public sector banks, including 19 nationalised banks, SBI and its 5 partner banks, and 2 additional public sector banks.

Private sector banks are banks in which domestic private entities own the majority of shares. Additionally, they can be classified into old private banks and modern private banks. At the time of independence, India's banking system was privately controlled. The majority of banks were gradually nationalised and taken over by the government. Before reforms were implemented, no new banks were permitted to enter the market. Few private banks entered the business until 1995 as a result of deregulation. Those private banks that entered the market following reforms are referred to as new private

[5] List of scheduled banks by RBI, https://rbidocs.rbi.org.in/rdocs/Content/PDFs/LSCBSC925ABF8A7E04824BA04596DF5C44006.PDF , Reserve Bank of India. Retrieved 5 December 2021

[6] In April of 2017, the affiliate banks of State Bank of India were fully merged with the parent bank.

banks, whereas those that existed before to deregulation and were excluded from nationalisation are referred to as old private banks. Before 1969, old private sector banks were too tiny or specialised to be nationalised. According to the IBA report titled "Performance Highlights of Private Sector Banks, 2015-2016," there were 21 private sector banks, including 12 old private banks and 9 new private banks.

Foreign sector banks are banks that are owned by foreign private enterprises operating in their native nations. The British banks operating in India prior to independence might be considered the first foreign banks in the country. After the advent of the Suez Canal, several other banks emerged. Nationalization had no negative effect on their presence. However, new foreign banks were not permitted to enter until the changes were implemented. Since then, the number of banks in the international sector has expanded and fluctuated. According to the IBA report titled Performance Highlights of Foreign Sector Banks, 2015-2016, there are 45 foreign banks operating in India.

Regional Rural Banks (RRBs) were established under the Regional Rural Banks Act of 1976 in order to develop the rural economy through financing the development of agriculture, commerce, industry, and other productive activities, focusing on small and marginal farmers, agricultural labourers, artisans, and small rural entrepreneurs. Regional Rural Banks are specifically constructed financial entities that operate under the supervision of NABARD and sponsor commercial banks, with a tight network of branches serving various districts around the country (Ghouse & Reddy, 2017).

As in March 2021, there were 56 RRBs in the country. In addition, just four non-scheduled commercial banks exist in the country.[7]

## 3.3 Growth of Banking Sector in India.

The expansion of the financial structure in India took almost 70 years to reach this mile stone as at the time of Independence, the structure was not so developed to meet the expectation of the masses across the country. Still there is ample scope in further expanding this network because of the fact that some of the regions in country are not connected with the formal financial system. Historically, India has been a financial inclusion pioneer. The Cooperative Credit Societies Act of 1904 provided the cooperative movement in India a push (Roy, 2011). The purpose of cooperative banks was to provide banking services, primarily credit availability, on more favourable conditions than moneylenders. According to the 1947 Statistical Tables relating to banks, there were a total of 637 banks, about 87 percent of which were non-scheduled and rest were scheduled commercial banks. Financial inclusion in India got momentum after independence specifically after 1969, when in response to a 1967 discussion on social banking, 14 private sector banks were nationalised in order to serve the unbanked. In 1974, the notion of priority sector lending, which entailed lending to unbanked regions, and eight additional private banks were nationalised in 1980 to provide access to banking to the masses especially in rural areas and for disadvantaged segments of society (Chattopadhyay, 2011). In 1969, there were only 73 commercial banks which increased significantly to 173 in 2012. The number of banks offices also rose at a very high rate from 8,262 in 1969 to 1,01,260 in 2012.

[7] RBI quarterly data on deposits and credit of scheduled commercial banks March, 2021

Both per capita deposit and per capita credit have expanded about 600 times from 1969 to 2012. In 1969, Per capita Deposit of Scheduled Commercial Banks (SCBs) was just 88 which rose to 51,106, likewise Per capita credit of Scheduled Commercial Banks (SCBs) also rose from 68 to 39,900 over the same time period. Even accounting for inflation, this is significant expansion (Reserve Bank of India, 2016).

In recent years, particularly after November 2005, the Reserve Bank of India (RBI) has taken specific efforts to enhance financial inclusion by introducing the concept of no frill accounts, relaxing know-your-customer procedures, financial inclusion plans, branch authorisation policy and coverage of unbanked villages etc.

Through the transfer of resources to the actual sector of the economy, banks play an undoubtedly crucial role in the economic growth. This role of bank intermediation has been mostly played by cooperative and commercial banks in Indian banking. Seventy percent of the whole banking industry is also controlled by commercial banks. Given the diversity of its ownership and purposes, commercial banking in India is singular. The proportion of governmental ownership is the largest (about 70%), followed by local private and foreign private ownership.

If we analyse the availability of financial services of India, there is a significant improvement has been seen over the years. In 1969, to every 60 thousand population, if we examine the availability of financial services in India over the years, we may observe a tremendous increase. In 1969, there was one bank branch for every sixty thousand people. In 2021, the population-per-branch ratio was 1:8610, indicating that inclusive banking makes a significant stride forward.

## 3.4 Population Branch Ratio

There has been a significant improvement over the years in terms of population per branch among the states and union territories, with some states well ahead in terms of coverage of population with formal financial system, while in other states and union territories, there is still a significant gap in population per branch ratio, with a single bank branch serving more than 15000 residents of the state or union territory. This section describes the population's dependence on each branch of scheduled commercial banks. If we look at the figures illustrated in Table 3.1. In 2006 almost all the states and union territories have a population of more than ten thousand per bank branch with a national average of 14,890 which improved to 8,610 persons per branch in 2021. As of 2021, among the large states, Himachal Pradesh has the most favourable ratio, with a single bank branch for every 4,281 inhabitants, followed by Punjab with a ratio of 1:4454. Bihar has the highest number of inhabitants per bank branch, with a ratio of 1:15841.

**Table 3.1 Population per Bank Branch in the States & UTs of India (2006-2021)**

| State/UT | Population Per Branch (2006) | Population Per Branch (2011) | Population per Branch (2016) | Population per Branch (2021) |
|---|---|---|---|---|
| Andaman & Nicobar Islands | 12324 | 8283 | 5851 | 5405 |
| Andhra Pradesh | 13981 | 11012 | 7587 | 6891 |
| Arunachal Pradesh | 16465* | 14568 | 9858 | 8470 |
| Assam | 22290 | 19726 | 12886 | 11275 |
| Bihar | 24674 | 23707 | 16722 | 15841 |
| Chandigarh | 4360 | 3023 | 2475 | 2570 |
| Chhattisgarh | 20940 | 17330 | 11221 | 10073 |

| State/UT | Population Per Branch (2006) | Population Per Branch (2011) | Population per Branch (2016) | Population per Branch (2021) |
|---|---|---|---|---|
| D-N Haveli & Daman-Diu | 17214 | 10121 | 7583 | 10160 |
| Goa | 4043 | 2959 | 2191 | 2224 |
| Gujarat | 14610 | 11793 | 8654 | 7911 |
| Haryana | 12859 | 9093 | 5828 | 5551 |
| Himachal Pradesh | 7740 | 6174 | 4502 | 4281 |
| Jammu & Kashmir | 11905 | 10904 | 7442 | 7343 |
| Jharkhand | 18769 | 16115 | 12123 | 11683 |
| Karnataka | 10623 | 8989 | 6379 | 6012 |
| Kerala | 8852 | 6986 | 5341 | 5102 |
| Ladakh | - | 8303 | 5035 | 3857 |
| Lakshadweep | 7200 | 5333 | 5154 | 3091 |
| Madhya Pradesh | 18355 | 15906 | 12231 | 11311 |
| Maharashtra | 15084 | 12335 | 9391 | 8858 |
| Manipur | 32971 | 36152 | 19308 | 14193 |
| Meghalaya | 13069 | 12956 | 8991 | 8585 |
| Mizoram | 11537 | 10349 | 6574 | 5553 |
| Nagaland | 28253 | 20615 | 13458 | 11417 |
| NCT of Delhi | 8590 | 6143 | 5090 | 5367 |
| Odisha | 16069 | 13312 | 9215 | 8336 |
| Puducherry | 11558 | 7752 | 5842 | 5713 |
| Punjab | 8955 | 6773 | 4574 | 4454 |
| Rajasthan | 17342 | 14911 | 10624 | 9816 |
| Sikkim | 9763 | 7023 | 4770 | 4078 |
| Tamil Nadu | 12545 | 10206 | 7109 | 6208 |
| Telangana | - | 10001 | 7131 | 6549 |

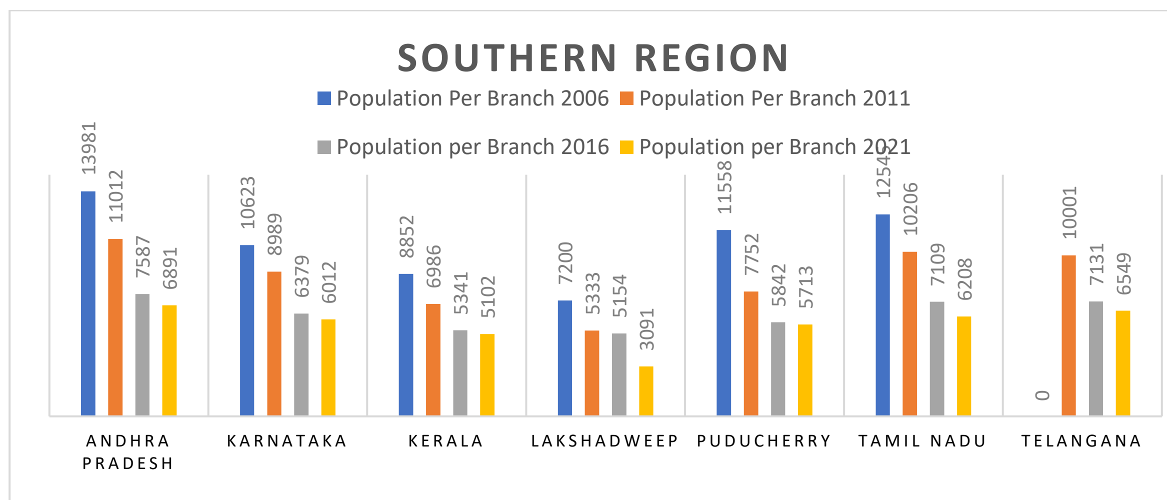
| State/UT | Population Per Branch (2006) | Population Per Branch (2011) | Population per Branch (2016) | Population per Branch (2021) |
|---|---|---|---|---|
| Tripura | 18026 | 14579 | 7379 | 6865 |
| Uttarakhand | 9807 | 7477 | 5241 | 5026 |
| Uttar Pradesh | 20999 | 17554 | 12849 | 12488 |
| West Bengal | 17820 | 15579 | 10874 | 10280 |
| **India** | **14890** | **12714** | **9152** | **8610** |

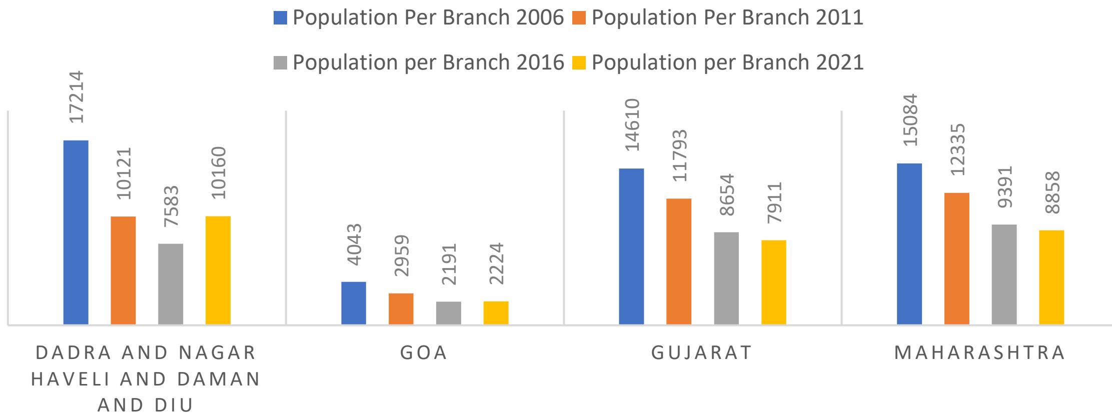
**** States and union territories with a ratio lower than the national average are indicated with the red colour***

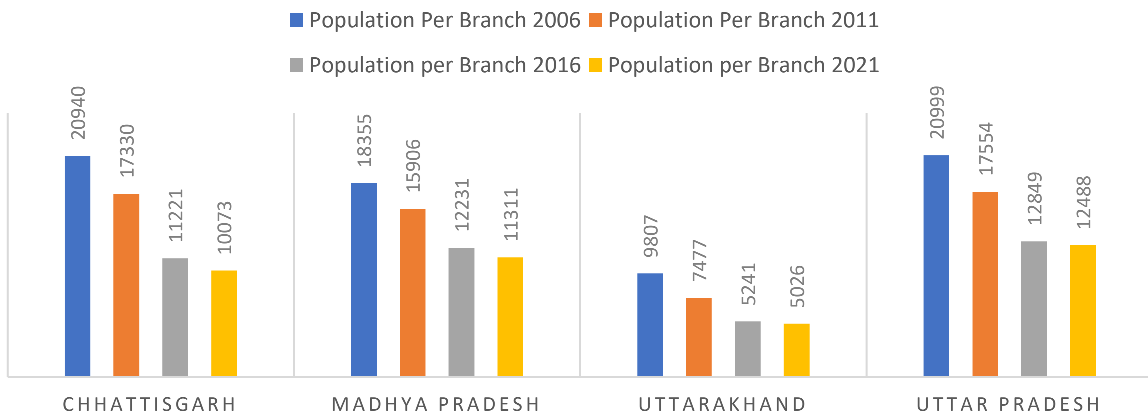
*Source: Author's Calculation using data from Census of India and Reserve Bank of India*

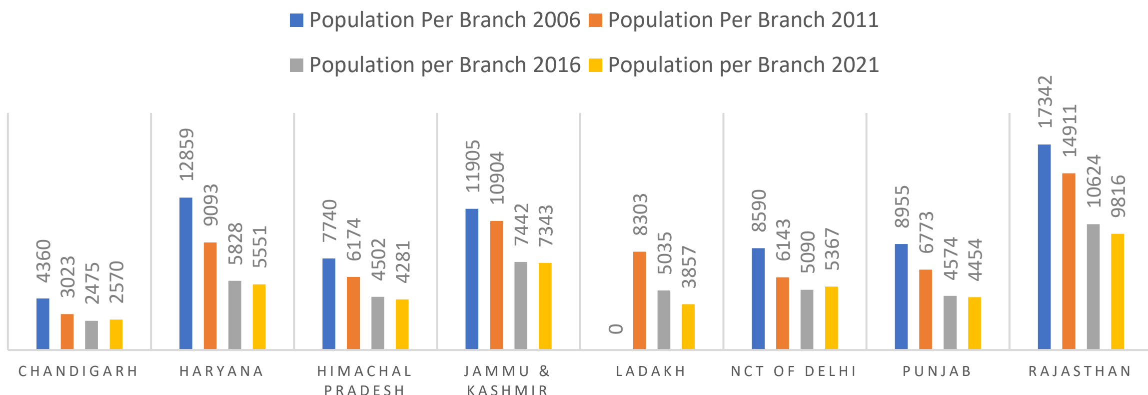
In the northern, southern and western region of the country, the situation is far better-off than the other regions. The States like Manipur, Assam and Nagaland in North-eastern region, Bihar, Jharkhand and West Bengal in eastern region, Chhattisgarh, Madhya Pradesh and Uttar Pradesh have still more than 10 thousand population to each branch of commercial bank as in 2021.

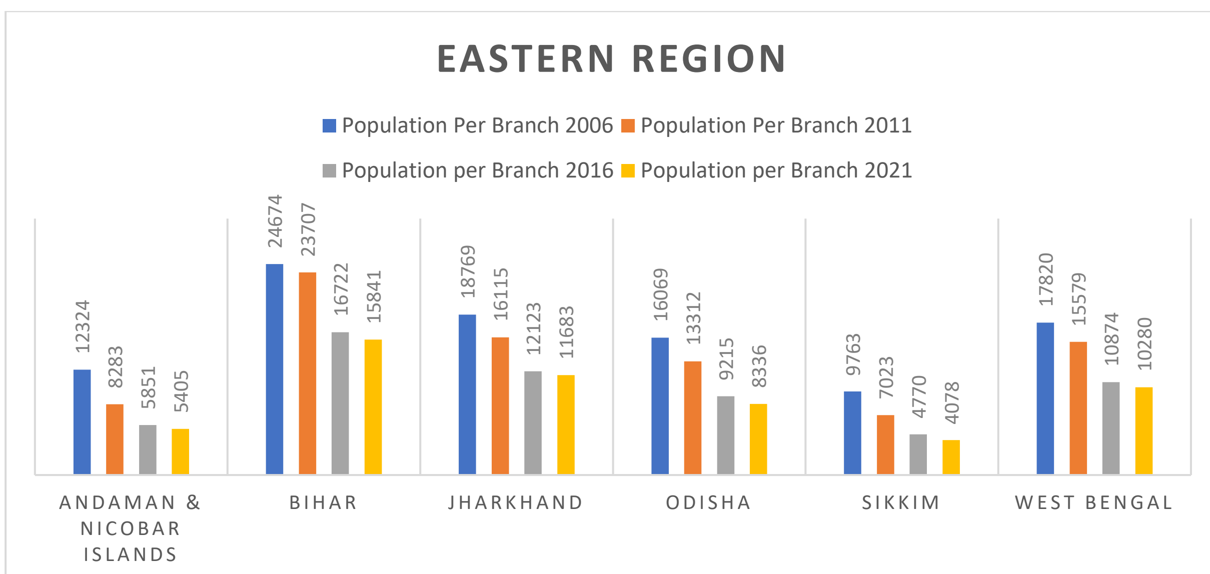
The region-by-region ratio of bank branches to the population is depicted through charts in the following figures, which demonstrates regional disparities in terms of the availability of banking services.

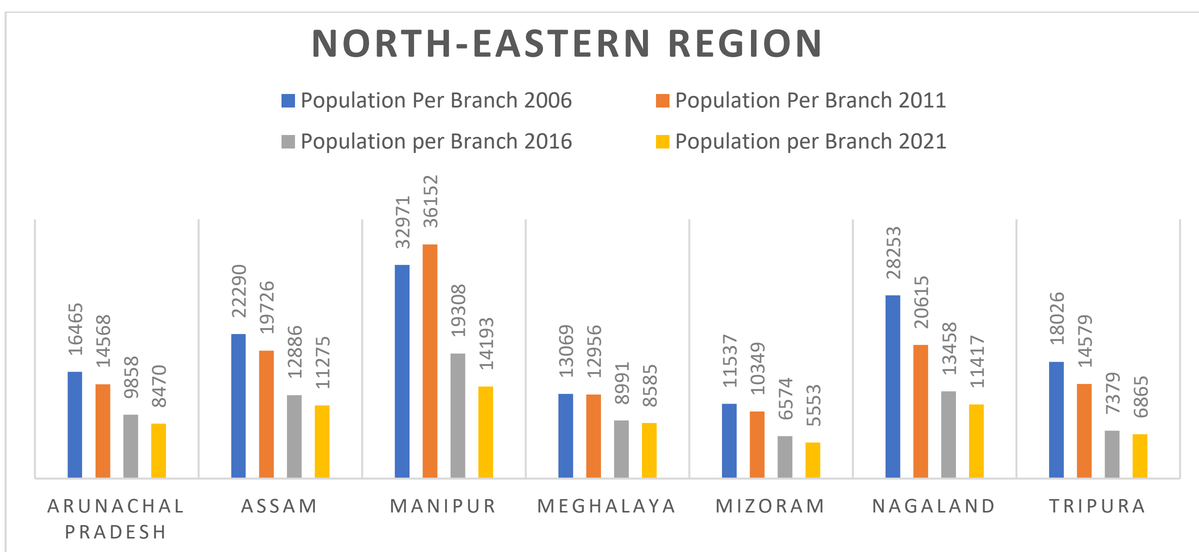



WESTERN REGION
Population Per Branch 2006
Population Per Branch 2011
Population per Branch 2016
Population per Branch 2021
17214
10121
7583
10160
4043
2959
2191
2224
14610
11793
8654
7911
15084
12335
9391
8858
DADRA AND NAGAR HAVELI AND DAMAN AND DIU
GOA
GUJARAT
MAHARASHTRA


CENTRAL REGION
Population Per Branch 2006
Population Per Branch 2011
Population per Branch 2016
Population per Branch 2021
20940
17330
11221
10073
18355
15906
12231
11311
9807
7477
5241
5026
20999
17554
12849
12488
CHHATTISGARH
MADHYA PRADESH
UTTARAKHAND
UTTAR PRADESH


NORTHERN REGION
Population Per Branch 2006
Population Per Branch 2011
Population per Branch 2016
Population per Branch 2021
4360
3023
2475
2570
12859
9093
5828
5551
7740
6174
4502
4281
11905
10904
7442
7343
0
8303
5035
3857
8590
6143
5090
5367
8955
6773
4574
4454
17342
14911
10624
9816
CHANDIGARH
HARYANA
HIMACHAL PRADESH
JAMMU & KASHMIR
LADAKH
NCT OF DELHI
PUNJAB
RAJASTHAN




In general, states and union territories that have lower population densities or better infrastructure and communication means fare better in terms of the availability of banking services. On the other hand, states that have a high population density, uneven topography, or remote locations fall short, and the bank branches in those states are overburdened. States such as Bihar, Jharkhand, Uttar Pradesh, Madhya Pradesh, West Bengal, Assam, Manipur, and Nagaland still have populations of more than 10,000 people that rely on a single bank branch as of the year 2021.

## 3.5 Growth of Banking Sector in Jammu and Kashmir

### 3.5.1 General Profile of Jammu and Kashmir

Jammu and Kashmir is the most north-western part of the country, with an area of 2,22,236 square kilometers and three separate regions: Jammu, Kashmir, and Ladakh[8]. In terms of land size, Leh is the largest district, whereas Ganderbal is the smallest. After the reorganization of Jammu and Kashmir in 2019, the state is now divided into two distinct union territories, one of which consists of Jammu and Kashmir regions and is called the Jammu and Kashmir union territory, while the other is called the Ladakh union territory. The union territory of Jammu and Kashmir contains twenty districts, ten of which are in the Jammu region and ten in the Kashmir region, whereas the union territory of Ladakh has only two districts. All three parts of the state (now union territories) have unique geographical and climatic characteristics.

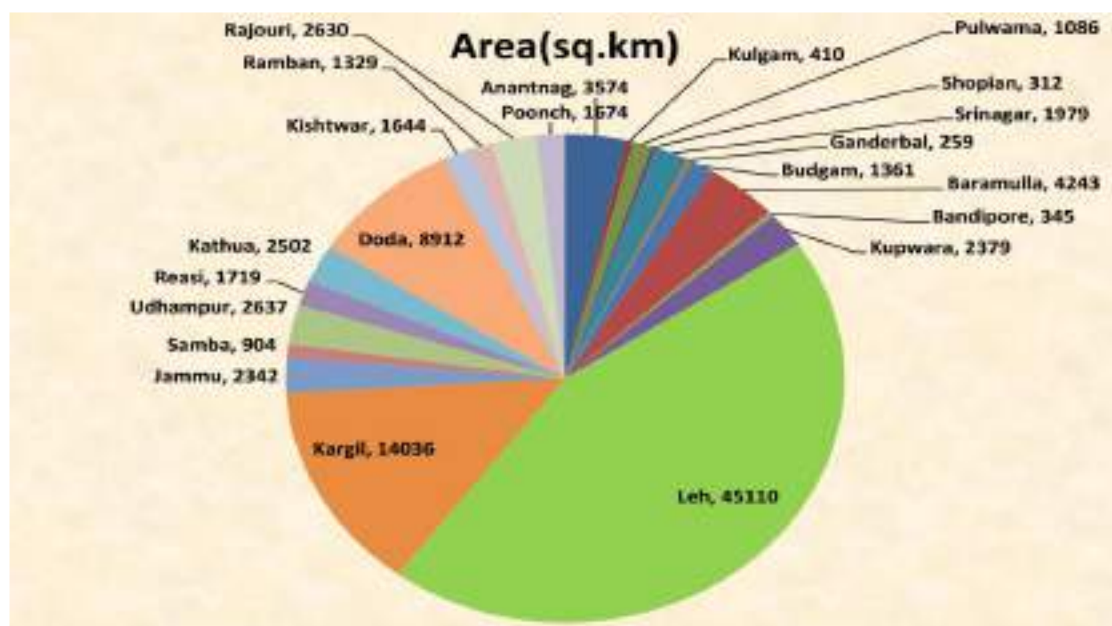
The districts of Kathua, Samba, Jammu, Udhampur, Doda, Kishtwar, Ramban, Reasi, Rajouri, and Poonch make up the Jammu region. The districts named Srinagar, Baramulla, Anantnag, Budgam, Kulgam, Pulwama, Shopian, Bandipora, Kupwara and Ganderbal are in Kashmir area. The two districts of the union territory of Ladakh are Leh and Kargil.

According to the 2011 census, the state's population was 1.25 billion, with 66.41 lakh men (52.95 percent) and 59.01 lakh females (47.05 percent), for an overall sex ratio of 889 females per thousand males. Jammu district is the most populous district in Jammu and Kashmir, according to the 2011 census, while Leh district is the least populous.

[8] https://niti.gov.in/planningcommission.gov.in/docs/plans/stateplan/sdr_jandk/sdr_jkch1.pdf

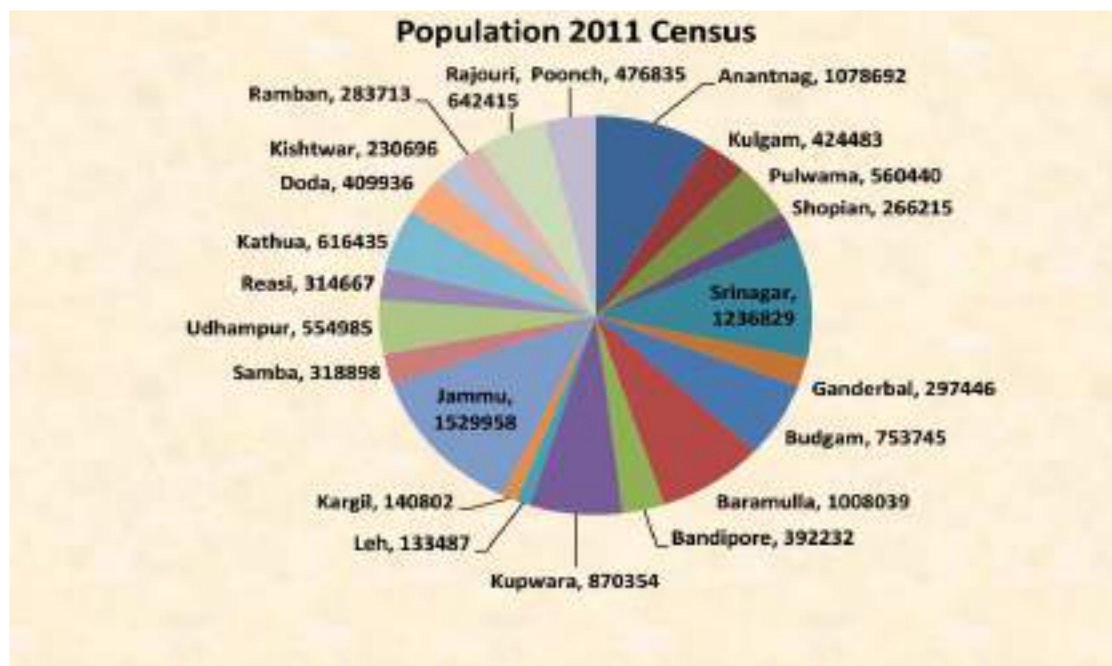
The following diagrams depicts the division of the state of Jammu and Kashmir by area and population.

**Figure 3.2: Area wise Distribution of Districts in J&K**




*Source: Digest of Statistics, 2018-19, Directorate of Economics and Statistics, Jammu and Kashmir*

**Figure 3.3: Population Distribution in the Districts of J&K (2011)**




*Source: Digest of Statistics, 2018-19, Directorate of Economics and Statistics, Jammu and Kashmir*

### 3.5.2 Profile of Financial Sector in Jammu and Kashmir

There are 12 public sector banks, 11 private sector banks, and 2 regional rural banks within Jammu and Kashmir's banking system. All ten districts of Kashmir region and two districts of Jammu region, Rajouri and Poonch, are served by J&K bank as the lead bank, while State Bank of India serves as the lead bank in the remaining eight districts of Jammu region and Ladakh region. The following table provides a comprehensive overview of the banking network in Jammu & Kashmir.

**Table 3.2 Summary of Banking Network in Jammu & Kashmir as on December 31, 2021**

| | Name of the Bank | No. of Banking Outlets | | | |
|---|---|---|---|---|---|
| | | Branch | BCs* | Other Modes (ATM) | Total |
| **A** | **Public Sector Banks** | | | | |
| 1 | State Bank of India | 192 | 246 | 759 | 1197 |
| 2 | Punjab National Bank | 117 | 66 | 172 | 355 |
| 3 | UCO Bank | 20 | 00 | 24 | 44 |
| 4 | Central Bank of India | 18 | 00 | 14 | 32 |
| 5 | Canara Bank | 39 | 00 | 34 | 73 |
| 6 | Punjab & Sind Bank | 16 | 00 | 05 | 21 |
| 7 | Bank of Baroda | 11 | 00 | 12 | 23 |
| 8 | Union Bank of India | 22 | 00 | 25 | 47 |
| 9 | Bank Of India | 10 | 00 | 09 | 19 |
| 10 | Indian Overseas Bank | 04 | 00 | 04 | 08 |
| 11 | Bank of Maharashtra | 02 | 00 | 01 | 03 |
| 12 | Indian Bank | 14 | 00 | 11 | 25 |
| | **SUB-TOTAL** | **465** | **312** | **1070** | **1847** |
| **B** | **Private Sector Banks** | | | | |
| 13 | J&K Bank | 845 | 973 | 1293 | 3111 |
| 14 | ICICI Bank | 39 | 00 | 72 | 111 |
| 15 | HDFC Bank | 85 | 194 | 246 | 525 |

| 16 | Federal Bank | 01 | 00 | 01 | 02 |
|---|---|---|---|---|---|
| 17 | AXIS Bank | 29 | 00 | 33 | 62 |
| 18 | YES Bank | 07 | 00 | 08 | 15 |
| 19 | IDBI Bank | 06 | 00 | 12 | 18 |
| 20 | IndusInd Bank | 06 | 00 | 09 | 15 |
| 21 | South Indian Bank | 01 | 00 | 01 | 02 |
| 22 | Kotak Mahindra Bank | 02 | 00 | 03 | 05 |
| 23 | Bandhan Bank | 01 | 00 | 01 | 02 |
| | **SUB-TOTAL** | **1022** | **1167** | **1679** | **3868** |
| **C** | **Regional Rural Banks** | | | | |
| 24 | J&K Grameen Bank | 217 | 213 | 0 | 430 |
| 25 | Ellaquai Dehati Bank (EDB) | 110 | 39 | 0 | 149 |
| | **SUB-TOTAL** | **327** | **252** | **0** | **579** |
| | **Scheduled Commercial Banks: (A + B +C)** | **1814** | **1731** | **2749** | **6294** |
| ***It excludes the Ladakh region as data on bank wise no. of BCs for the region is not available** | | | | | |

*Source: UTLBC official websites of Ladakh and Jammu & Kashmir*

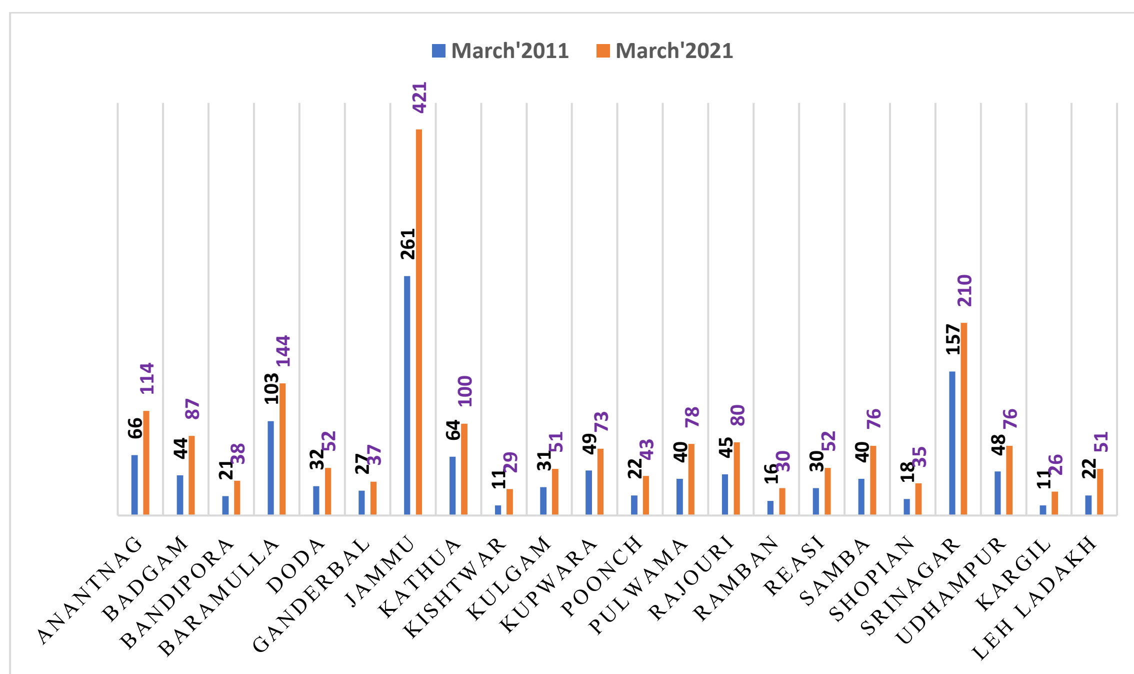
J&K bank has 845 bank branches, 973 business correspondents*, and 1293 ATMs throughout Jammu and Kashmir, making it the state's most dominant and robust financial institution (including Ladakh).

Although the financial system in Jammu and Kashmir has made significant strides forward in recent years, there are still some inconsistencies at the district level.

If we look at the figure 3.4 and compare the increase in the number of bank branches among the districts, particularly in the capital city districts of Jammu and Kashmir, namely Jammu and Srinagar, we find that Jammu had a bigger increase in the number of bank branches from 2011 to 2021.

In comparison, the growth rate in Srinagar is only 33.7 percent, whereas it is 61 percent in the Jammu area. The figure illustrates the growth of bank branches throughout all of Jammu and Kashmir's districts beginning in 2011 and continuing through 2021. In a similar vein, the number of financial service providers in areas that are geographically isolated, high in elevation, and far from the centre of the city are less inclusive.

**Figure 3.4: Number of Bank Branches in the Districts of Jammu and Kashmir**




*Source: Reserve Bank of India*

In addition, Kashmir region has a greater proportion of the population than Jammu but in terms of the distribution of bank branches of some of the major commercial banks[9] in Jammu and Kashmir, the Jammu region has fared better position. In the Table 3.3, district wise division of branches of some major commercial banks have been illustrated.

[9] Commercial banks having more than 20 branches across the Jammu and Kashmir

**Table 3.3 Number of Branches of some major commercial banks in Jammu and Kashmir (as on 31-03-2022)**

| | SBI | PNB | Canara Bank | J&K Bank | ICICI BANK | HDFC BANK | AXIS BANK | J&K Grameen Bank | Ellaquai Dehati Bank |
|---|---|---|---|---|---|---|---|---|---|
| **Srinagar** | 27 | 15 | 4 | 97 | 4 | 19 | 4 | 1 | 12 |
| **Ganderbal** | 3 | 1 | 0 | 25 | 0 | 2 | 0 | 1 | 8 |
| **Baramulla** | 10 | 2 | 1 | 62 | 2 | 3 | 2 | 55 | 0 |
| **Bandipora** | 2 | 2 | 0 | 21 | 0 | 1 | 1 | 11 | 0 |
| **Anantnag** | 10 | 5 | 1 | 66 | 2 | 4 | 1 | 0 | 20 |
| **Kulgam** | 2 | 3 | 0 | 28 | 0 | 1 | 1 | 0 | 13 |
| **Pulwama** | 5 | 2 | 0 | 51 | 2 | 5 | 1 | 0 | 13 |
| **Shopian** | 1 | 1 | 0 | 24 | 0 | 1 | 1 | 0 | 4 |
| **Budgam** | 7 | 1 | 0 | 53 | 1 | 4 | 0 | 0 | 12 |
| **Kupwara** | 6 | 2 | 0 | 37 | 0 | 2 | 1 | 23 | 0 |
| **Poonch** | 3 | 1 | 0 | 26 | 0 | 2 | 0 | 9 | 0 |
| **Rajouri** | 7 | 3 | 2 | 40 | 1 | 2 | 1 | 23 | 0 |
| **Jammu** | 41 | 42 | 21 | 100 | 12 | 27 | 7 | 54 | 10 |
| **Samba** | 9 | 7 | 3 | 22 | 2 | 3 | 4 | 15 | 1 |
| **Udhampur** | 9 | 8 | 1 | 31 | 2 | 3 | 13 | 0 | 8 |
| **Reasi** | 6 | 3 | 2 | 23 | 2 | 2 | 0 | 0 | 3 |
| **Kathua** | 11 | 9 | 3 | 37 | 1 | 3 | 1 | 21 | 0 |
| **Doda** | 9 | 2 | 0 | 32 | 2 | 2 | 0 | 0 | 3 |
| **Ramban** | 4 | 2 | 0 | 17 | 2 | 1 | 0 | 0 | 3 |
| **Kishtwar** | 2 | 1 | 0 | 23 | 0 | 1 | 0 | 2 | 0 |
| **Ladakh (L+K)** | 18 | 5 | 1 | 36 | 4 | 2 | 3 | 2 | 0 |
| **Total** | **192** | **117** | **39** | **851** | **39** | **90** | **29** | **217** | **110** |

*Source: JKSLBC*

Although the majority of the commercial banks are significantly concentrated in the Jammu region, particularly in Jammu and its surrounding districts while J&K bank is an exception as it maintained a significant presence across the Jammu and Kashmir. The country's major public sector banking players like State Bank of India and Punjab National Bank, have also a very less proportion of banking network across the regions and particularly in the Kashmir region. State Bank of India, one of the largest public sector banks, has 174 branches in Jammu and Kashmir as of March 2022, however more than 58 percent of them are in the Jammu region. Similarly, Punjab National Bank and Canara Bank have only 30% and 16% of their branches in the Kashmir region respectively. Except J&K bank, the number of bank branches of other banks in Ladakh region are also very low.

There is a sizable disparity in the network of even major public sector banks when we examine the situation of each district separately. The State Bank of India only has one branch in the Shopian district and just three branches in Ganderbal, Poonch and only 2 branches in Bandipora, Kulgam, and Kishtwar each. Similar to Canara Bank, which only has branches in one district of Jammu and has none in 11 of the 20 districts.

# 4 Initiatives Taken for Promoting Financial Inclusion: Implementation and Achievement

Financial inclusion is considered a vital indicator of the development and well-being of any region or economy worldwide. The Reserve Bank of India, with the progressive intervention of the government, has been working efficiently to promote financial inclusion in India as one of the country's primary economic goals[1]. Nationalization of banks (in 1969 and 1980), lead bank scheme (LBS), the establishment of regional rural banks (RRBs), co-operatives banking outlets, and formation of self-help groups are some of the significant efforts made in the last few decades with the only primary goal to reach out to a significant proportion of the Indian population who have previously been financially disadvantaged.

The necessity of an inclusive financial system is not just generally acknowledged in India, but has become a policy priority in almost every country. Several nations throughout the world increasingly view financial inclusion as a route to a more inclusive growth, in which each person may utilise their income to enhance their future financial condition, therefore contributing to the economy's development. In developed markets, the issue is mostly demand-driven. Financial authorities, governments, and the banking sector have launched various initiatives to promote financial inclusion. The Community Reinvestment Act (CRA) of 1997 in the United States of America (USA), for instance, requires banks to give loans throughout their whole service area and forbids them from targeting primarily affluent neighbourhoods for credit facilities. In France, the 1998 legislation on exclusion emphasizes the right

[1] Reserve Bank of India

of a person to hold a bank account. In 1996, the German Bankers Association (GBA) created a voluntary guideline that streamlines basic banking activities and provides for an "everyman" current account. The South African Banking Association (SABA) introduced a low-cost bank account named "Mzansi" for financially disadvantaged persons in 2004 (Sarma, 2016). In 2005, the government of the United Kingdom established a Financial Inclusion Task Force to examine the growth of financial inclusion, likewise in India the introduction of no-frills accounts in 2005 to maximise the inclusion of unbanked population in formal financial system. Providing conditions for competitiveness and a framework of incentive programs for the various financial institution, insurance, and non-bank related dynamics, and delivering the full spectrum of reasonably priced and high-quality financial services are all goals of the Principles for Innovative Financial Inclusion which serves as a guide for regulations and government approaches.

Since 2005, when the Reserve Bank of India resolved to enact policy to encourage financial inclusion and directed the banking system to focus on this goal, a more targeted and structured approach has been taken towards financial inclusion. Introduction of mandated priority sector lending targets, formulation of financial inclusion plans, branch expansion policy, coverage of unbanked villages through financial intermediaries. The Pradhan Mantri Jan Dhan Yojana (PMJDY) with zero balance is the most recent financial inclusion programme that come up with the intension of inclusion of masses across the country in the formal financial system to become part of mainstream of the economic development.

The Government of India and the Central Bank of India have taken various initiatives timely to promote this programme. In fact, the journey explicitly started in 1955 with the nationalisation of the State Bank of India (which was earlier known as the Imperial Bank of India) on the recommendation of the All-India Rural Credit Survey Committee. After that, the nationalisation of major commercial banks took place by the government in two phases. To increase social control over the banking system, 14 major banks were nationalised in the first shift in July 1969, and again in April 1980, when six more commercial banks were nationalised. Taking into account major financial sector issues such as priority sector lending, extending banking outreach in rural areas, and financial exclusion of vulnerable and poor social groups, policymakers and stakeholders implemented the Lead Bank Scheme in 1969, the establishment of Regional Rural Banks in 1975, the Service Area Approach in 1989, the Self-Help Group-Bank Linkage Programme in 1989, and Local Area Banks. Apart from these successive steps, the target was not being achieved as per expectations. Afterwards, special efforts were made by the Reserve Bank of India as it simplified the know your customer (KYC) norms, introducing no-frills accounts, branch expansion policy, coverage of unbanked villages across the country.

Now the question arises, why all these institutions matter? All the above-mentioned schemes and institutions plays distinct and significant role in attaining the ultimate goal of financial inclusion which are precisely described as follows:

Lead Bank Scheme was introduced in 1969 with a vision to assign the role of a lead bank to a public sector bank for every district. The primary objective of this operation is to coordinates with local financial market agents and to conduct public outreach

programmes like financial literacy camps in the respective districts to recognize and address bottlenecks in the provision of financial services.

Regional Rural Banks are basically Scheduled commercial bank with a special entity of operation to provide banking facilities in rural areas but now they work in semi urban as well. There are several other initiatives (will be explained below) which are being taken by Government and Banks to enhance this program.

In the past two decades, not only government and supply-side institutions, but also academics and policymakers, have paid greater attention to financial inclusion as a potential source of economic benefits.

This chapter solely deals with the initiatives of financial inclusion, their implementation and achievements (particularly after the year 2005), that are being taken by all the stakeholders like RBI, government, other financial institutions. A detailed discussion on performance of all these major initiatives in India as well as in Jammu and Kashmir is illustrated under the following sub-headings.

## 4.1 Major Initiatives of Financial Inclusion in India

The government of India, the Reserve Bank of India, and other key financial sector stakeholders in India collaborated effectively to accelerate financial inclusion throughout the country. Some features of the initiatives have been omitted, primarily due to a lack of relevant data, despite the fact that the following subsections describe all of the significant initiatives.

### 4.1.1 No Frills Accounts

Account ownership is considered as the most fundamental indicator of financial inclusion. Keeping in consideration of providing a basic account, in 2005, RBI recognized that account opening practices of the banks tend to exclude rather than attract vast sections of population and urged them to align with the objective of financial inclusion. As a means of broadening people's access to financial services, it was suggested that all financial institutions offer a no frills bank account with either no minimum balance or a minimal one, as well as fees that are low enough to be affordable for low-income customers. Starting in November 2005, banks have opened a total of 5.06 crore no frills accounts as of March 2010[2]. In August 2012, all the existing no-frills accounts were converted into BSBDA in compliance with the revised RBI guidelines. If we looking for a basic deposit account with a bank, the Basic Savings Bank Deposit Account (BSBDA) has the following features available to all the customers:

- The account really ought to be thought of as a basic banking service that everyone can use.
- This account has no minimum balance requirement.
- This account will deliver a debit card or ATM card.
- Services will include cash deposits and withdrawals at bank branches and automated teller machines.
- While there will be no monthly limit on deposits, account holders will be limited to four withdrawals per month, including ATM transactions.

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[2] Master Circulars, Reserve Bank of India.

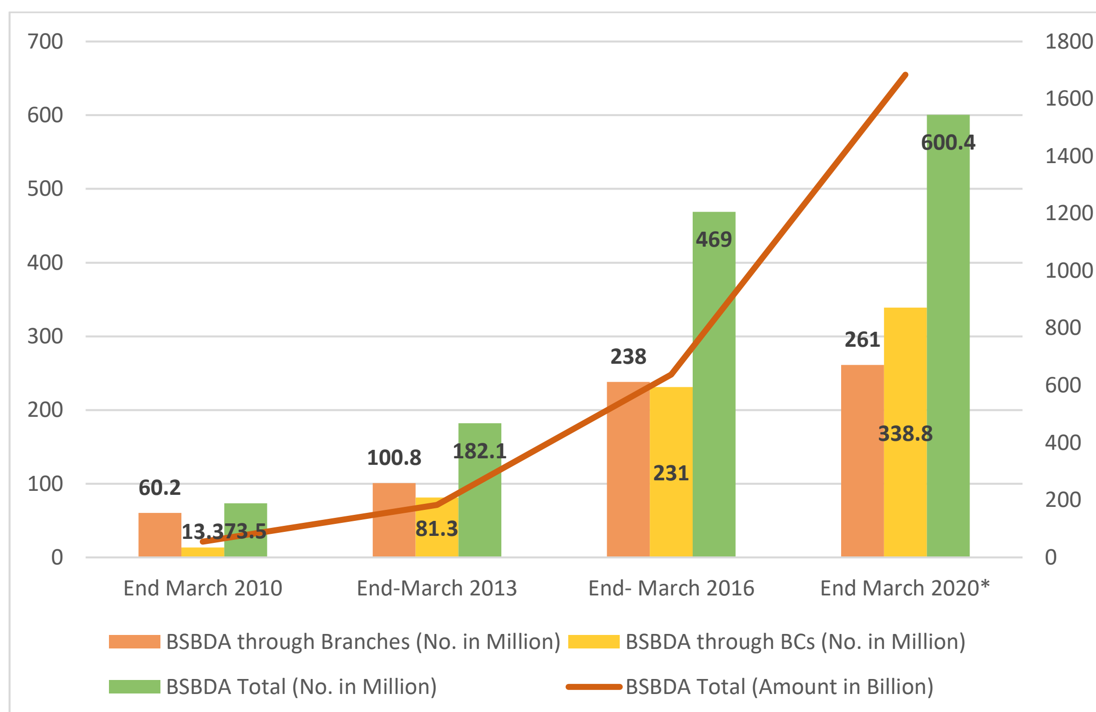
### 4.1.2 Basic Saving Bank Deposit (BSBD) Accounts.

Banks were urged to allow customers to open Basic Saving Bank Deposit (BSBD) accounts with minimal functionality, including the capacity to receive electronic payments, make cash deposits and withdrawals at a branch or ATM, and have an ATM card issued. Under the financial inclusion plans, all existing No-frills accounts opened in accordance with the guidelines issued in circulars dated December 13th and 27th, 2005 and converted into BSBDAs in accordance with the guidelines issued in the circular dated August 22, 2012, and the fresh accounts which were opened under the said circular are also treated as BSBDAs.

Following the implementation of Financial Inclusion Plans (FIP), there was a significant increase in the number of BSBD accounts, particularly after 2016 of PMJDY in 2014 that might be the reason for the tremendous increase in the number of accounts. In March 2010, the total number of BSBD accounts was 73.5 million, which rose to 182.1 million at the end of the 1st FIP, i.e., 2013. More than 55 percent of BSBD accounts were opened through branch banking outlets during the first phase. In March 2016, the total number exponentially increased to 469 million, and a further 600.4 million in March 2020[3]. The PMJDY initiative encouraged BCs to easily cover the majority of the unbanked population particularly in rural areas, which evolved into a major player in account opening over time with 56 percent of total BSBD accounts opened through branchless mode in 2020. Trend of BSBD accounts opened during FIPs is shown in Figure 4.1. Further, bank-group wise BSBD account opening patterns are also presented in Figure 4.2 from the year 2016 to 2020.

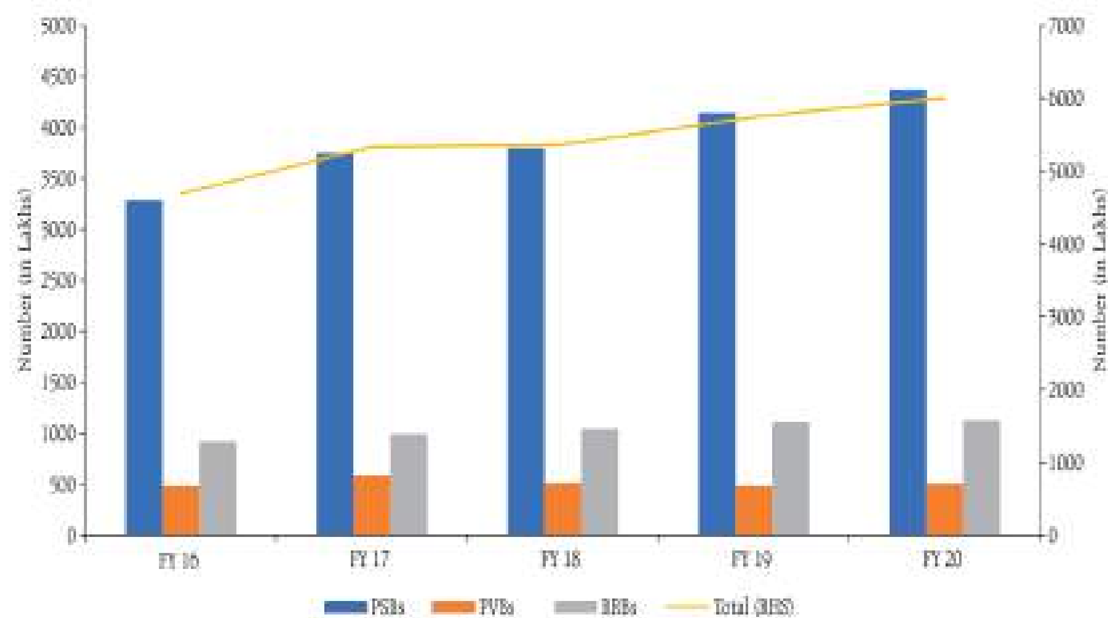
[3] Reserve Bank of India's annual reports, (various issues)

**Figure 4.1 Trend of Basic Saving Bank Deposit Accounts (BSBDA) in India (2010-2020)**




*Source: Author's Calculation using data from RBI Annual Reports (various issues).*

**Figure 4.2: Bank Group Wise Total Number of BSBD Account (2016-2020)**




*Source: RBI Bulletin September 2021*

In Figure 4.2, it is shown that the total number of BSBDAs was 6004.2 lakh at the end of March 2020, up from 4690.04 lakh at the end of March 2016, representing a 6.37 percent increase. The outstanding balance increased at a CAGR of 27.46 percent per year. Following the motivation provided by the Pradhan Mantri Jan Dhan Yojana (PMJDY), a flagship scheme of the Indian government, more than 131 crore BSBD accounts was registered over the assessment period, with various proportions dispersed across all the bank groups (Chakrabarty, 2021).

### 4.1.3 Financial Inclusion Plans

Banks in both the public and private sectors were urged to submit board-approved Financial Inclusion Plans (FIPs) covering the subsequent three years beginning in April 2010.These initiatives have sought to motivate financial institutions to take a methodical and organised approach to expanding access to formal financial services. These plans generally include self-set targets for the opening of rural brick-and-mortar branches, the employment of business correspondents (BCs) and business facilitators (BFs), the coverage of villages which are not being covered through a banking outlet earlier and having a population more than two thousand. In the next phase, villages with population less than 2 thousand are also allocated to different banking entities to cover through branches, BCs, or through other modes. It also includes the opening of No Frill Accounts, including those accounts opened through BC-ICT, the issuance of Kisan Credit Cards, General Credit Cards, and other products designed to serve the financially excluded segments[4]. It was suggested by the central bank to commercial banks to include FIPs authorised by the board in their business strategies and add financial inclusion requirements as a performance evaluation

[4] Reserve Bank of India, Annual Report 2010.

measure[5]. Beginning in April 2010, public and private sector banks were advised to submit a board-approved three-year Financial Inclusion Plan (FIP). To give an example, public sector banks (PSBs) can pave the way for greater financial inclusion because of their widespread presence and trust among citizens, private sector banks can ensure inclusion by being among the first to adopt new technologies, and regional rural banks (RRBs) can ensure inclusion by being present on a local and regional level. Using the FIP returns filed to the central bank by these financial institutions, the progress made under the access and usage dimensions of financial inclusion can be successfully evaluated. Improvements in financial inclusion since the commencement of financial inclusion plans, i.e., 2010, banks have been made headway in areas such as the opening of bank branches, the deployment of banking correspondents (BCs), the opening of BSBD accounts, and the provision of credit through KCCs and GCCs. The Table 4.1 illustrates the detailed trends in financial inclusion plans for different phases.

**Table 4.1 Phase wise progress of Financial Inclusion Plans (FIPs) in India**

| | **March 2010** | **March 2013** | **March 2016** | **March 2019** | **December 2021** |
|---|---|---|---|---|---|
| **BO in Villages- Branches** | 33378 | 40837 | 51830 | 52489 | 53249 |
| **BO in Villages- Branchless** | 34316 | 227619 | 534477 | 544666 | 1847274 |
| **Banking Outlets in Villages- Total** | 67694 | 268454 | 586307 | 597155 | 1900523 |
| **Urban Locations Covered- BCs** | 447 | 27143 | 102552 | 447170 | 1412529 |
| **BSBDA through Branches (in** | 60 | 100 | 238 | 255 | 271.2 |

[5] ibid.

| millions) | | | | | |
|---|---|---|---|---|---|
| **BSBDA through BCs (in millions)** | 13 | 81.27 | 231 | 319 | 391.9 |
| **BSBDA Total (in millions)** | 73 | 182 | 469 | 574 | 663.1 |
| **KCCs- Total (in millions)** | 24 | 33.8 | 47 | 49 | 47.3 |
| **GCC- Total (in millions)** | 1 | 3.63 | 11 | 12 | 87 |

*Source: Reserve Bank of India, Annual Reports (various issues)*

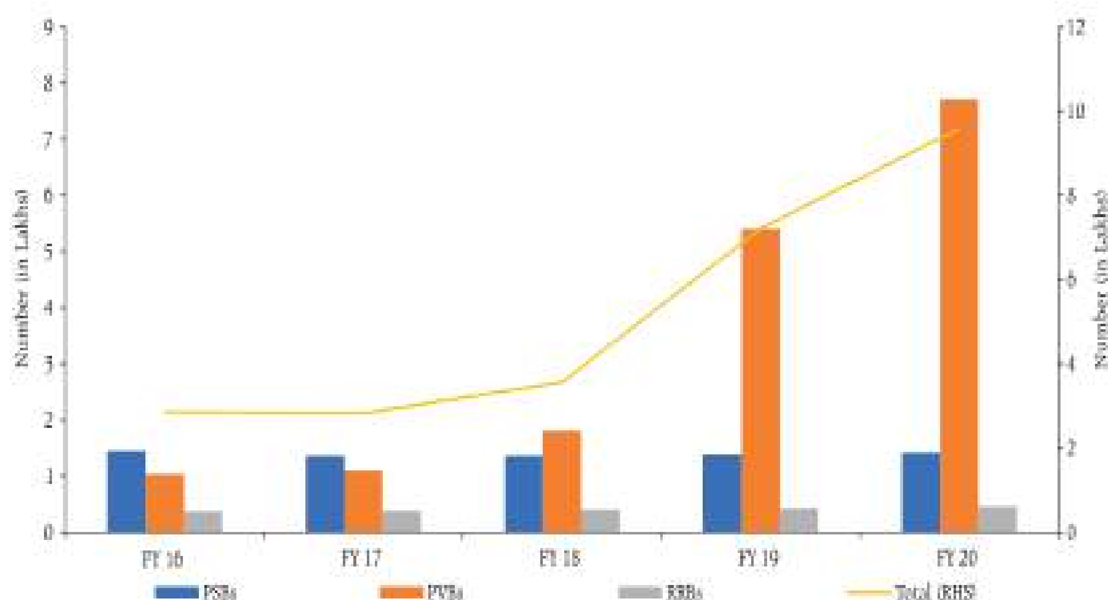
### 4.1.4 Business Correspondent Model

Over the years, the Reserve Bank of India has taken a number of steps to expand banking access and increase financial inclusion. The country's central bank published guidelines for the use of business correspondents (BCs) in the providing of banking and financial services in January 2006. Since then, the BC model's governing structure has been perfectly alright to guarantee that customers rights are not compromised while wider distribution of banking services is achieved[6]. Banks were authorised to engage non-governmental organisations (NGOs/SHGs), microfinance institutions, and other civil society organisations as intermediaries in delivering financial and banking services under the business correspondents (BC) model beginning in January 2006. The BC paradigm enables cash in-cash out transactions and branchless banking at the site of the Business Correspondent. Over the years, the number of BCs rapidly increased, specifically after financial year 2018. The number of BCs in 2016 under private sector banks was about 1 lakh, the number of which rose to a surprising figure of about 7 lakhs in 2020, while the number for public sector

[6] Master Circulars, Reserve Bank of India

banks and RRBs became stagnant over the time period. Figure 4.3 shows the bank group wise number of BCs in India from the years FY2016 to FY2020.

**Figure 4.3: Bank-Group Wise Number of Business Correspondents Deployed (2016-2020)**




*Source: Financial Inclusion Plans –Reflecting the Growth Trajectory. RBI Bulletin September 2021.*

### 4.1.5 Kisan Credit Card (KCC) Scheme

In order to facilitate the speedy acquisition of agriculture inputs like seeds, fertilisers, insecticides and the withdrawal of cash for production requirements etc., the Kisan Credit Card (KCC) programme was introduced in August 1998 for the distribution of Kisan Credit Cards to farmers based on their holdings, for uniform implementation by banks. The model of KCC was prepared by NABARD to meet the recommendations of the RV Gupta Committee.

The KCC is accessible at all Indian banks, including rural regional banks and co-op banks. The KCC programme provides both short-term and long-term credit limitations for crops. Personal accident insurance protects farmers with KCC credit of fifty thousand rupees for total and permanent disability and death, and up to twenty-

five thousand for all other risks[7]. In 2004, the plan was expanded to include farmers' investment financing needs for linked and non-agricultural enterprises. Shri T. M. Bhasin, managing director of Indian Bank, revised the existing plan in 2012, in an effort to simplify the system and streamline the issuance of Electronic Kisan Credit Cards. On December 18, 2020, Prime Minister Narendra Modi introduced the Revised Scheme for Kisan Credit Card (KCC), which aims at providing enough and timely credit support from the banking system under a single window to the farmers for their crops and other requirements.

The plan offers banks with comprehensive instructions for implementing the KCC scheme. Implementing banks will be able to customise it to meet the needs of their institutions and locations (Reserve Bank of India, 2017). Through this initiative, farmers will avail collateral-free credit of up to Rs 1 lakh. The amount of the loan for the first year that is provided by this programme is determined by taking into account the cost of cultivation, the cost of post-harvest costs, and the cost of farm maintenance. For the succeeding five years, loans will be sanctioned on the basis of the rise in the scale of finance. The premium under this programme is borne by both the bank and the borrower in a respective 2:1 ratio. The interest paid on the loan under the KCC plan is roughly 7 per cent of basic interest per annum. In the event of non-repayment within the due dates, interest is imposed at the card rate, and after the due date, interest will be compounded half yearly.

**Applicability of the Plan**

[7] https://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=11034

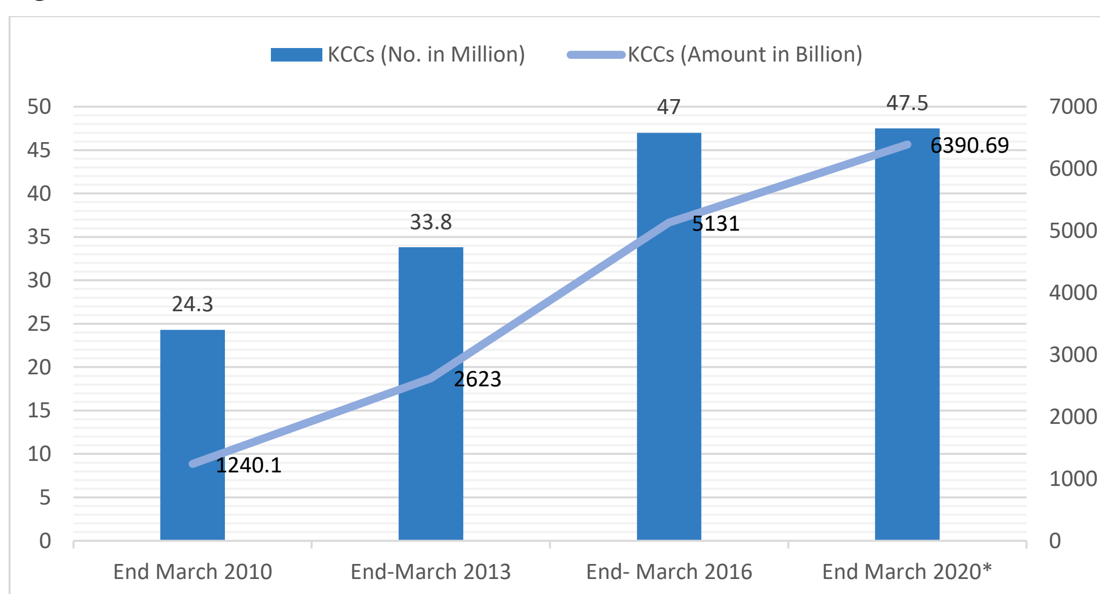
Commercial Banks, Regional Rural Banks, Small Finance Banks and Cooperatives banks are the institutions responsible for putting the Kisan Credit Card Scheme into action.

**Objective of the Scheme**

The Kisan Financial Card plan intends to provide farmers with enough and timely credit support from the banking system through a single window with a flexible and streamlined method for their agricultural and other requirements, as detailed below:

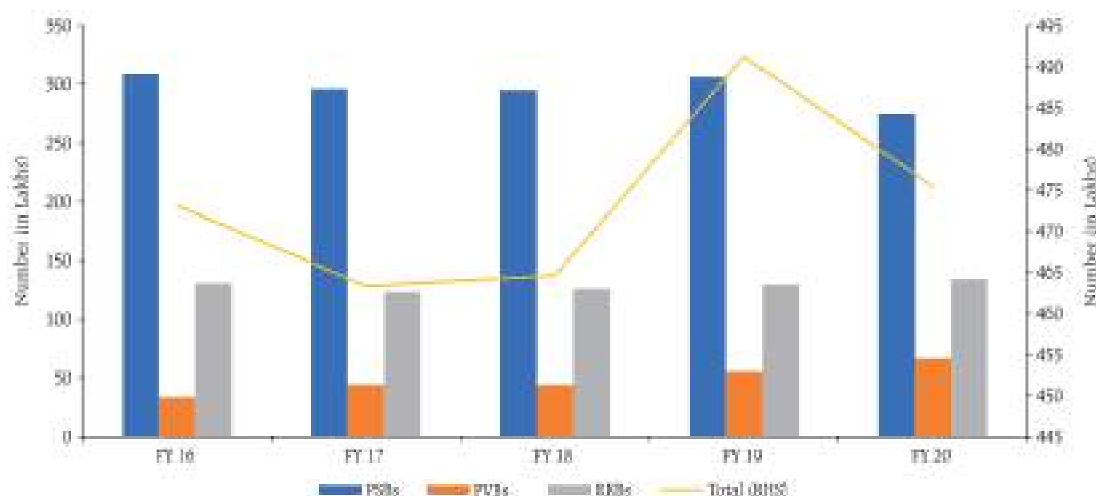
- To satisfy the short-term financial requirements for agricultural production.
- Post-harvest expenditures.
- Create marketing credit.
- Consumption needs of the farmer's family.
- Working capital for agricultural asset upkeep and agriculture-related operations.
- Need for investment loans in agriculture and related businesses.

**Figure 4.4: Trends of Kissan Credit Scheme in India**




*Source: Reserve Bank of India's Annual Reports (Various issues).*

**Figure 4.5: Bank-Group Wise Kisan Credit Card Accounts in India (2016-2020)**




*Source: Financial Inclusion Plans- Reflecting the Growth Trajectory (RBI Bulletin)2021.*

In Figures 4.4 and 4.5, the issuance of Kissan credit cards and the amount disbursed, as well as the bank-group wise trend of card distribution, are shown respectively. In FY 2010, 24.3 million KCCs were distributed, which increased 1.95 times to 47.5 million in FY 2020. Public sector banks are the dominant distributor of KCCs in India.

### 4.1.6 General Credit Card (GCC)

In order to make obtaining credit as easy as possible to bank customers in rural and semi-urban regions, the banks were encouraged in December 2005 to explore introducing General Credit Cards (GCC) to these customers. The cards have a credit limit of up to ₹25,000, depending on the evaluation of the household's income and cash flow, with no requirement for collateral or purpose of credit (Mani, 2015, p. 102). During the Financial Inclusion Plan (FIP) review meetings that was held with banks during May to July 2013, it was observed that the data reported by commercial banks under the General Credit Card Scheme does not show much improvement

entrepreneurial credit provided to the individuals[8]. As a result, the Reserve Bank of India (RBI) issued a revised General Credit Card Scheme in December 2013. Further all Credit Cards (e.g., Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card) that cater to the non-farm entrepreneurial credit requirements of individuals were included under GCC scheme as the GCC is meant to cover all entrepreneurial credit. Consumption credit is not recorded under GCC and recorded separately in the FIP under the heading Overdraft (OD)/consumption credit[9]. The credit facility was to be a revolving line of credit allowing the holder to withdraw up to the sanctioned sum. The banks must impose a fair and adequate interest rate on the arrangement.

Important features of General Credit Card scheme are in following subsections;

- Objective

The goal is to boost the flow of credit to persons engaging in entrepreneurial activity in the non-agricultural sector via the General Credit Card.

- Eligibility

Individual non-farm entrepreneurial credit that is suitable for categorization under the priority sector rules.

- Coverage

The programme will encompass the entire nation.

- Characteristics of the financial accommodation

[8] Reserve Bank of India, quarterly edition 2013.
[9] Revised General Credit Card Scheme. Reserve Bank of India - Notifications (rbi.org.in)

Any credit facility given under the Scheme would cover entrepreneurs' working capital and term loan needs. The GCC would be issued in the form of a smart card or debit card (a biometric smart card that is compatible with ATMs or hand-held swipe machines and is able to record relevant information on the beneficiary's identification, assets, credit profile, etc.). Where accounts are not digitised, the GCC may be issued as a card/pass book or a credit card cum pass book for the time being, which will serve as an identity card and facilitate the ongoing recording of transactions. Alternatively, the GCC may be issued in the form of a credit card cum pass book.

- Quantum of the credit

There will be no maximum loan amount as long as the loan is used for a non-agricultural entrepreneurial activity and otherwise qualifies as a priority sector. The limitations should be determined based on a case-by-case risk assessment.

- Security

The security rules shall be in accordance with the Reserve Bank's instructions on collateral-free financing for micro and small enterprises, which are released periodically.

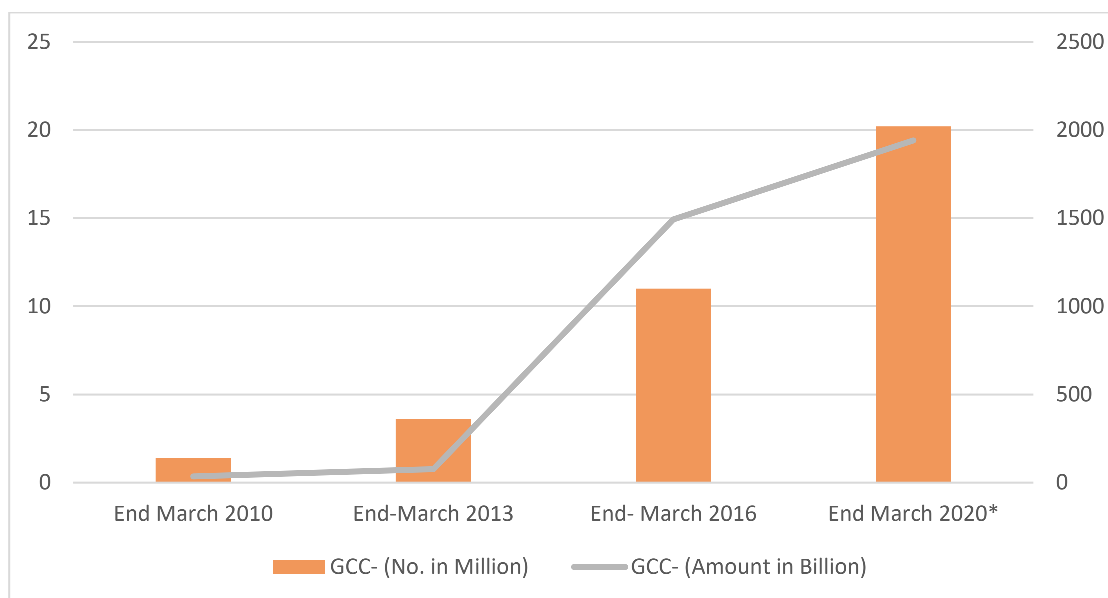
- Rate of Interest.

To be determined by banks in accordance with their Board-approved policies and the Reserve Bank's periodic interest rate recommendations.

The scheme of general credit card flourished particularly after the first phase of financial inclusion plan. The digitalization of the economy and various innovative techniques that were being promoted over time likely with the notion of financial

literacy might the reason for this growth in the holding of general credit cards in India. In the figure 4.6, growth of beneficiaries over time in India has been illustrated.

**Figure 4.6: Progress of General Credit Cards Scheme in India (2010-2020)**




*Source: Reserve Bank of India's Annual Reports (Various issues)*

In the very beginning of Financial Inclusion plan, the beneficiaries of GCC were only 1.4 million across the country, the number of which significantly to 11 million in 2016 and further 20.2 million in end-March 2020.

### 4.1.7 Opening Branches in Un-banked Villages

On August 20th, 2009, High-Level Committee on Lead Bank Scheme, which was constituted by RBI and headed by Usha Thorat (the then Deputy Governor of RBI) as chairperson submitted its report and recommended to broaden the scope of LBS for maximising financial inclusion, financial literacy and credit counselling. Banking development for inclusive growth, debt settlement, and grievance redressal systems was also recommended, along with the creation of time-bound development plans to support the enablers and eliminate or minimise the barriers. As a result of these

suggestions, the lead banks across the districts were encouraged to formalize a sub-committee of the DCCs.

> *"A Sub-Committee of the District Consultative Committees (DCCs) to draw up a roadmap by March 2010 to provide banking services through a banking outlet in every village having a population of over 2,000, by March 2011. Such banking services may not necessarily be extended through a brick-and-mortar branch but can be provided through any of the various forms of ICT- based models, including through BCs".*

The roadmap for providing banking services in the unbanked areas (village) where the population was more than 2000 (as per census 2001) was rolled out in November 2009. There was no special instruction or limitations in context of mode of coverage. It is allowed to cover the identified unbanked areas with branch or branchless outlets[10]. Under the 1st phase, 74414 unbanked villages with a population of above 2000, were identified and allocated to different banks for coverage with banking outlets. At the end of financial year 2011-12, 99.7 percent of identified unbanked villages were covered by providing banking facilities through banking outlets. All the allocated unbanked villages were covered during the 1st phase by opening 2493 branches, 69568 business correspondents and 2332 other branchless modes[11].

### 4.1.8 Coverage of Un-banked Villages in J&K

A total of 795 villages without banking facilities have been identified by the concerned SLBC and allocated to the various banks for providing banking services by March 2012, in accordance with the Reserve Bank of India's directions on providing

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[10] Branchless modes like, business correspondents, ATMs, satellite branches or mobile vans.
[11] Reserve Bank of India, *Annual Report, 2013-14.*

of banking services in all the unbanked villages having a population of 2000 and above.

Table 4.2 shows the initial distribution of the state's unbanked villages among the various financial institutions. As some banks did not took the desired steps in covering the assigned un banked villages, reallocation has been done and all the villages were allocated to only five major financial institutions comprise of 2 public sector banks, 2 regional rural banks and one private sector bank. The highest share of more than 67 percent of this allocation was assigned to the Jammu and Kashmir Bank.

**Table 4.2 Coverage of un-banked Villages for Providing Banking Services in J&K**

| Name of the Bank to which allocated for providing banking services | No. of un-banked villages allocated | Reallocation. |
|---|---|---|
| **Jammu & Kashmir Bank** | 425 | 535 |
| **State Bank of India** | 95 | 95 |
| **Punjab National Bank** | 35 | 35 |
| **Punjab & Sind Bank** | 3 | |
| **Central Bank of India** | 3 | |
| **UCO Bank** | 2 | |
| **State Bank of Patiala** | 1 | |
| **Bank of India** | 1 | |
| **Allahabad Bank** | 1 | |
| **J&K Grameen Bank** | 143 | 95 |
| **Ellaquai Dehati Bank** | 38 | 35 |
| **JK State Coop. Bank** | 18 | |
| **Anantnag Cen. Coop. Bank** | 11 | |
| **Baramulla Coop. Bank** | 13 | |
| **Jammu Coop. Bank** | 6 | |
| **Total** | **795** | **795** |

*Source: JKSLBC, Various issues*

At the end of assigned time bound, only 68 villages were left yet to be covered which are only the villages which were assigned to J&K Bank. It is also important to discuss

that only 11 villages out of 795 were covered through branch mode while all the remaining were covered through branchless mode. The mode of coverage of these unbanked villages has been illustrated in the table 4.3.

**Table 4.3 Achievement of Banks in Coverage of un-banked Villages in J&K**

| Bank to which allocation assigned | Number of allocated villages | Progress achieved as on 31st March 2012 | | | | |
|---|---|---|---|---|---|---|
| | | Branch mode | BCs | MV | Total | No. of villages yet to be covered |
| Jammu & Kashmir Bank (JKB) | 535 | 3 | 465 | - | 468 | 68 |
| State Bank of India (SBI) | 95 | | 95 | | 95 | - |
| Punjab National Bank (PNB) | 35 | | 34 | | 34 | - |
| J&K Grameen Bank (JKGB) | 95 | | 95 | | 95 | - |
| Ellaquai Dehati Bank (EDB) | 35 | 8 | | 27 | 35 | - |
| | 795 | 11 | 689 | 27 | 727 | 68 |

*Source: JKSLBC Agenda, 2012*

With an extension to the existing plan, State level Bankers Committees (SLBCs) are advised[12] to prepare a roadmap for covering all the unbanked villages in a time bound manner, having population of less than 2000 (as per census 2001) by providing financial services through branches or business correspondents.

In the 2nd phase, 4.9 lakh villages were identified where the population was less than 2000 and allocated to banks to cover in a time bound manner by 31st March, 2016[13]. At the end of financial year 2013-14, 37.5 percent of the allocated unbanked villages were covered while as of end March 2015, nearly 80 percent of allocated villages

[12] Reserve Bank of India, "*Monetary Policy Statement for 2012-13". Paragraph 70.*
[13] . ibid.

covered with the establishment of 14207 branches, 357856 BCs and 18324 other modes of banking outlets.

With the implementation of PMJDY in August 2014, the time bound of coverage reduced to 14th August, 2015 instead of 31st March, 2016. At the end of March, 2016, nearly 92 percent (450686 villages) of the target had been achieved.

In Jammu and Kashmir, 5,582 villages with population of less than 2,000 were identified and distributed to various banks in order to meet the Reserve Bank of India's mandate for providing banking services in such areas within the specified timeframe. In the Table 4.4, bank wise allocation and achievement in providing banking facilities in the unbanked villages has been presented. The banking sector in the state has performed well in achieving the given target as at the end of the time period, the progress was well ahead the assigned target.

**Table 4.4 Allocation and Achievement of Banks in Coverage of un-banked Villages in J&K**

| Bank to which allocated | No. of villages allocated | Target for the coverage of villages | | | | Progress Achieved as on 31st March 2013 | Cumulative Progress upto 31st Mar. 2014 | Cumulative Progress upto 31st Mar. 2015 | Percentage Achievement of Targets upto 31-03-2015 |
|---|---|---|---|---|---|---|---|---|---|
| | | March 2013 | March 2014 | March 2015 | March 2015 onwards | | | | |
| **JKB** | 3,271 | 1,103 | 497 | 800 | 871 | 987 | 1,696 | 2,465 | 103 |
| **SBI** | 753 | 111 | 196 | 215 | 231 | 94 | 390 | 627 | 120 |
| **PNB** | 294 | 6 | 137 | 81 | 70 | 2 | 108 | 294 | 131 |
| **J&KGB** | 1,026 | 54 | 350 | 329 | 293 | 65 | 417 | 742 | 101 |
| **EDB** | 238 | 40 | 79 | 79 | 40 | 40 | 123 | 191 | 96 |
| **Total** | **5,582** | **1,314** | **1,259** | **1,504** | **1,505** | **1,188** | **2,734** | **4,319** | **106** |

*Source: JKSLBC Reports (various issues)*

In an effort to expand financial inclusion, the RBI has adopted a bank-led approach. In the 1990s and early 2000s, banks were compelled to open branches nationwide, especially in underbanked areas, resulting in a substantial increase in the number of bank branches and, later in the number of ATMs outlets as well. The banks were advised to devise a strategy for opening branches in communities with populations of at least 2,000 (in 2009) and fewer than 2,000 (in 2012)[14].

Subsequently the banks also have been urged to establish brick-&-mortar structures in villages with population of above five thousand. This branch could be a low-cost, simple brick-and-mortar facility with the bare minimum of infrastructure, such as, For larger customer transactions, a core banking solution terminal coupled to a passbook printer and a cash safe.

While the ratio of branches to BC is low, the RBI found that the BC model predominated in the unbanked villages. The central bank instructed SLBC Convenor banks in all states/UTs in 2015 to choose villages with populations of more than 5,000 that lacked a bank branch, then allot them to commercial banks to open branches in; the process of opening these branches was to be finalized by March 31, 2017[15]. In India, 8018 such villages were identified and allocated to different banks to provide a basic banking facility with in a time bound.

Seventy-five percent of the country's 8,018 designated villages with a population of more than 5,000 have access to banking services as of September 2018. In 2017, the RBI amended branch authorisation rules to treat fixed-point BCs outlets serving for

[14] Reserve Bank of India, Annual Report (various issues)
[15] Branch Authorisation Policy, Reserve Bank of India 2015.

four hours a day, five days a week on par with physical brick-and-mortar branches, in order to increase financial inclusion.

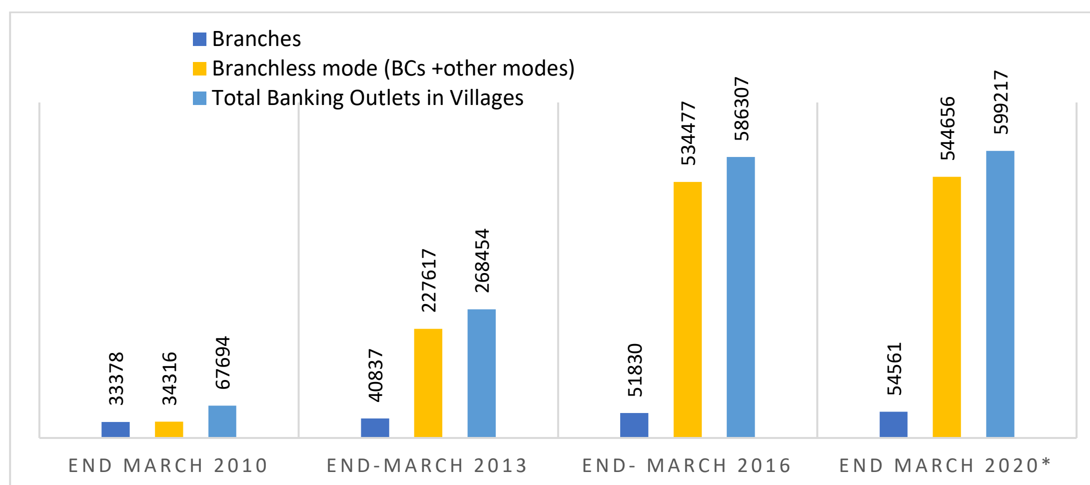
In Jammu and Kashmir, 104 villages having population >5000 were identified (as per Census 2011), and allocated among 8 banks (J&K Bank, SBI, PNB, HDFC, ICICI, Canara Bank, UCO Bank and Central bank of India) with maximum share to J&K bank and SBI with a target of 40 villages and 20 villages respectively.

The performance by all the banks in J&K is very unsatisfactory as in December 2017, only 10 such villages were covered by the banking sector.

### 4.1.9 Growth of Rural Branches

With the goal of broadening the scope of financial inclusion, particularly in villages, to include the financially excluded segment of society, the RBI directed all banks to open bank branches in villages through various means from the start of FIPs. At the beginning of the first FIP, the cumulative strength of banking outlets in villages was 67,694, out of which early half were covered through branch mode and the others were covered through branchless mode. Over time, there has been a significant rise in branchless coverage of villages, especially through BCs model in villages, initially with a population of 2000 and above and further with a population of 2000 and below. As of March 2020, 5,99,217 banking outlets had been opened, with only 9.10 percent of them being branches and the rest being branchless. The trend of banking outlets over time is depicted in Figure 4.7.

**Figure 4.7: Trend of Banking Outlets in villages in India under FIPs**

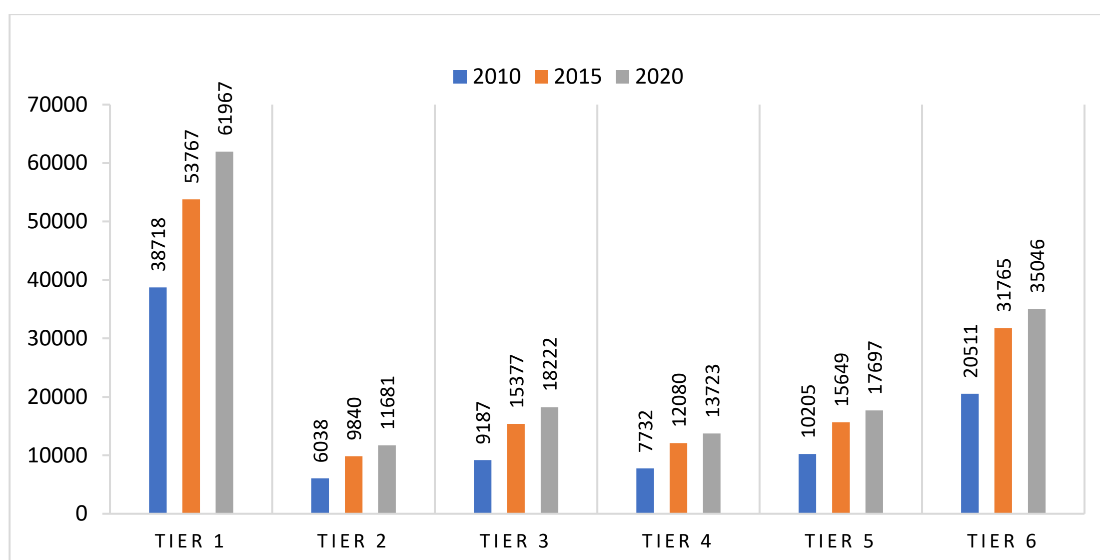



*Source: Annual Reports of RBI, (various issues).*
** Provisional data*

### 4.1.10 Simplified Branch Authorization Policy

Reserve bank of India allowed domestic SCBs to open branches freely in Tier 3 to Tier 6 centres with populations of less than 1 lakh in order to improve the situation of uneven spread of bank branches, since December 2009. Domestic SCBs in the North-Eastern States and Sikkim can open branches without the RBI's clearance. General authority for domestic scheduled commercial banks (other than RRBs) to open branches in Tier 1 centres, subject to specific requirements, with the goal of increasing liberalisation. In 2017, the RBI amended branch authorisation rules to treat fixed-point Business correspondent outlets serving for four hours a day, five days a week on par with physical brick and mortar branches, in order to increase financial inclusion. With an initial budget of 2000 crore, the Financial Inclusion Fund (FIF) was established to assist technology adoption and capacity building (Reserve Bank of India, 2020).

**Figure 4.8: Population tier wise no. of functioning offices of commercial banks in India (2010-2020)**




*Source: RBI's Database on Branch Statistics*

### 4.1.11 Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan-Dhan Yojana (PMJDY) as the national mission for Financial Inclusion is built on the notion of "Sab ka Sath, Sab ka Vikas" i.e., inclusive growth to ensure access to financial services, notably, banking/savings and deposit accounts, remittance, credit, insurance, pension in an economical manner, launched by Prime Minister Narendra Modi on 28th August, 2014. The debut of this programme was announced at the old Red Fort on the occasion of India's Independence Day[16]. "*Jan Dhan Yojana"* roughly translates to "People's Wealth Scheme" which was selected through an online contest on the portal of My Govt Platform, which received over 6,000 suggestions from the general public. The mission's tagline is "Mera Khata-Bhagya Vidhaata," which translates as "My Bank Account the Creator of Good Fortune".

[16] BROCHURE 23 AUG 14 REV (pmjdy.gov.in)

The initiative of Pradhan Mantri Jan Dhan Yojana provides basic savings bank account with RuPay Debit card, overdraft facility for eligible customers, interest on the savings in account with no requirement of maintaining minimum balance, accidental and life insurance, connection with Aadhaar which facilitates the function of eligibility for Direct Benefit Transfer (DBT) through various government social sector schemes through Pradhan Mantri Jan Dhan Yojana (PMJDY). As of February 2022, there are 44.7 billion overall beneficiaries and 31.4 billion debit cards are being distributed in India as part of the PMJDY programme[17].

**Key tenets of the plan:**

- Accessibility of banking services to the unbanked - Opening of Basic Savings bank deposit (BSBD) accounts with minimum formality, flexible KYC, e-KYC, account opening in camp mode, zero balance, and no fees.
- Securing the vulnerable - Distribution of RuPay debit cards for cash withdrawals and merchant payments, with complimentary Rs. 2 lakh accident insurance coverage
- Funding the unfunded: Other financial mechanisms, such micro-insurance, overdraft for consumption, micro-pension, and micro-credit, are utilised to finance the unfunded.

**Important Features:**

The initiative was launched on the basis of the following six pillars in phase mode from its inception to 14th August, 2018. After the mentioned period the Government

[17] Pradhan Mantri Jan-Dhan Yojana | Department of Financial Services | Ministry of Finance (pmjdy.gov.in)

has decided to continue the National Mission of Financial Inclusion (PMJDY) with some modifications[18] which are also discussed consequently.

- Universal bank service accessibility - Branch and BC
- Every household would receive a basic savings account with a Rs. 5,000 overdraft facility.
- Financial Literacy Program - Promoting savings, ATM use, credit readiness, insurance and pensions, and the use of basic mobile phones for banking
- Credit Guarantee Fund Creation — To provide banks with a measure of protection against defaults
- Insurance - Accident protection of up to Rs 1 lakh and life cover of Rs 30 thousand for accounts registered between 15 August 2014 and 31 January 2015.
- A basic savings account is opened for an unbanked individual with no minimum required balance requirement and also deposit earns interest in PMJDY accounts.
- The PMJDY account holder receives a RuPay Debit Card.
- Overdraft (OD) facilities of up to Rs. 10,000 are offered to qualifying account holders.
- PMJDY accounts qualify for the Direct Benefit Transfer (DBT), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Atal Pension Yojana (APY), and Micro Units Development & Refinance Agency Bank (MUDRA) schemes.

[18] Continuation_of_PMJDY.pdf

**Extension of PMJDY with New Features:**

The government has decided to prolong the PMJDY programme beyond August 28, 2018 with these minor amendments:

- Change the emphasis from "Every Household" to "Every Unbanked Adult"
- RuPay Card Protection - For PMJDY accounts registered after August 28, 2018, the complimentary accident insurance coverage on RuPay cards rose from Rs. 1 lakh to Rs. 2 lakhs.
- Increase in overdraft limits from Rs 5 thousand to Rs 10 thousand and Over Draft facility up to Rs 2 thousand without any pre-requisite conditions.
- Age restriction for OD increased from 60 to 65 years.

**Important strategy taken by PMJDY based on previous experience:**

- Online accounts are opened in the main banking system of banks, as opposed to the previous offline procedure, which resulted in technology lock-in with the vendor.
- Interoperability supported via RuPay debit card or Aadhaar Payment System (AePS)
- Standard Business Correspondence
- E-KYC / Simplified KYC in lieu of burdensome KYC procedures

After the completion of six years of the said scheme, the Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman, emphasised the significance of this programme. The Pradhan Mantri Jan Dhan Yojana has been the cornerstone of the

Modi administration's initiatives centered on the people. Whether it is direct benefit payments, COVID-19 financial aid, PM-KISAN, enhanced earnings under MGNREGA, or life and health insurance coverage, the first step was to equip each adult with a bank account, which PMJDY has practically accomplished.[19]

**Achievements under Pradhan Mantri Jan Dhan Yojana:**

There is no doubt that PMJDY Provided a required push to the journey of financial inclusion in India. Whether in opening bank accounts to each and every area of the economy or providing other financial benefits like, debit card services, insurance benefits or other government sponsored financial aids, this scheme provide a great platform to make financial inclusion even more inclusive. A detailed analysis of this initiative is discussed in following sub sections.

**PMJDY Accounts:**

The primary focus of any financial inclusion initiatives to include the financially excluded section of the society by providing them access to a formal financial institution. Within one year from its inception, PMJDY included nearly 18 crores beneficiaries.

As in August 2021, 42.89 crore accounts were opened under the umbrella of PMJDY out of which 28.57 crores accounts were opened in rural and semi urban areas. According to RBI guidelines, a PMJDY account is considered inactive if there have been no customer-induced transactions for over a period of two years, In August of 2020, 86.3% of the total of 40.35 crore PMJDY accounts were operative. In the

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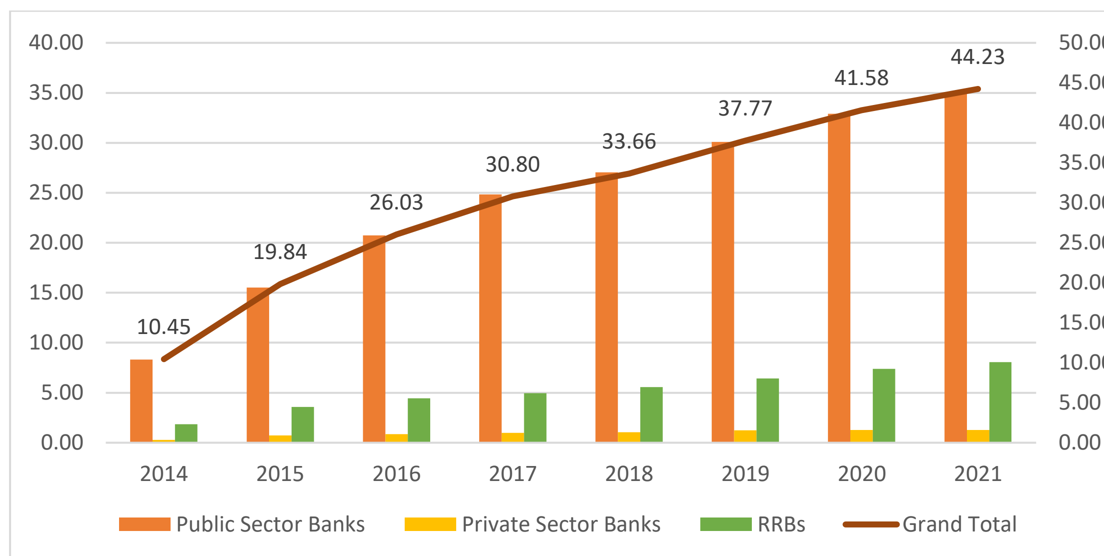
[19] Pradhan Mantri Jan-Dhan Yojana (PMJDY) - National Mission for Financial Inclusion, completes six years of successful implementation (pib.gov.in)

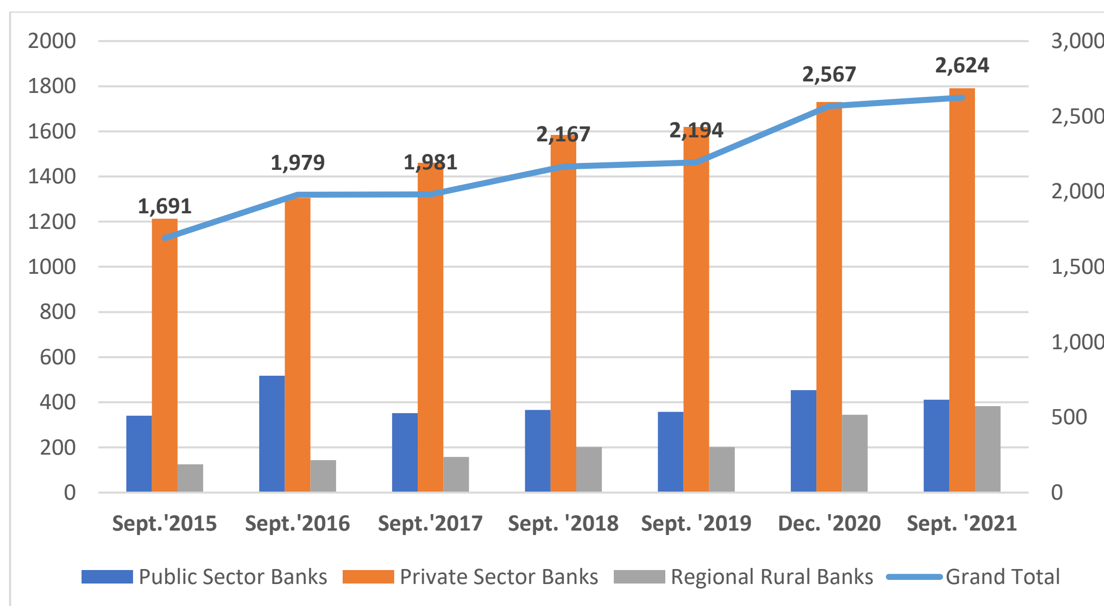
Figure 4.9 and 4.10, the yearly trend of accounts is presented from the time period August 2015 to August 2021.

**Figure 4.9: Number of Accounts opened under PMJDY in India (in Crore) (2014-2021)**




*Source: Pradhan Mantri Jan-Dhan Yojana, Department of Financial Services, Ministry of Finance (pmjdy.gov.in).*

**Figure 4.10: No. of PMJDY Accounts opened since inception of the scheme in Jammu & Kashmir (in '000) (2014-2021)**

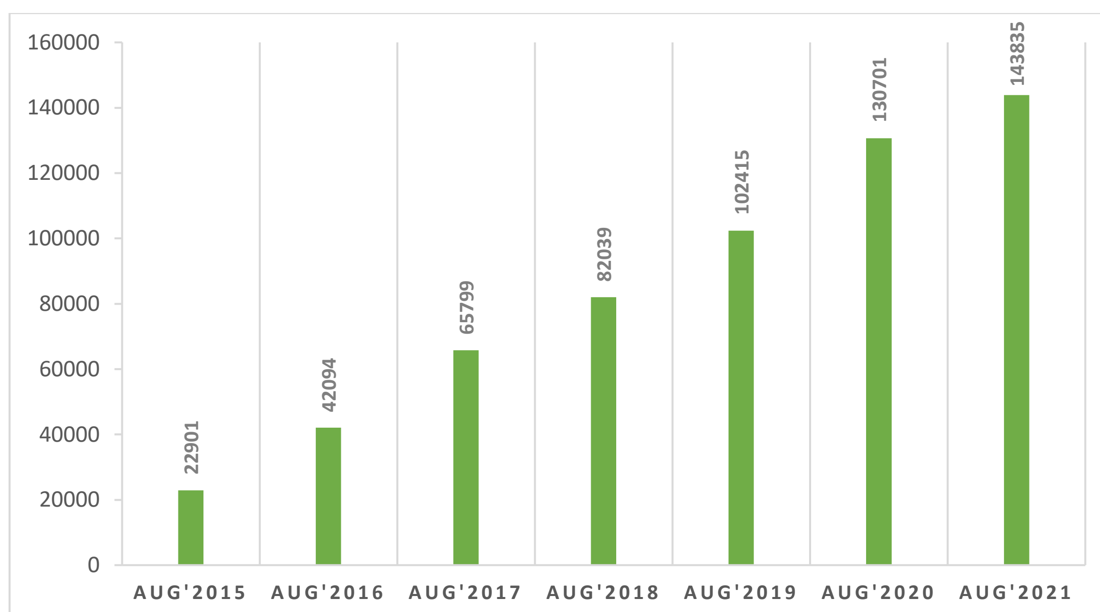



*Source: J&KSLB Committee Meetings (various issues)*

**Deposits under PMJDY Accounts:**

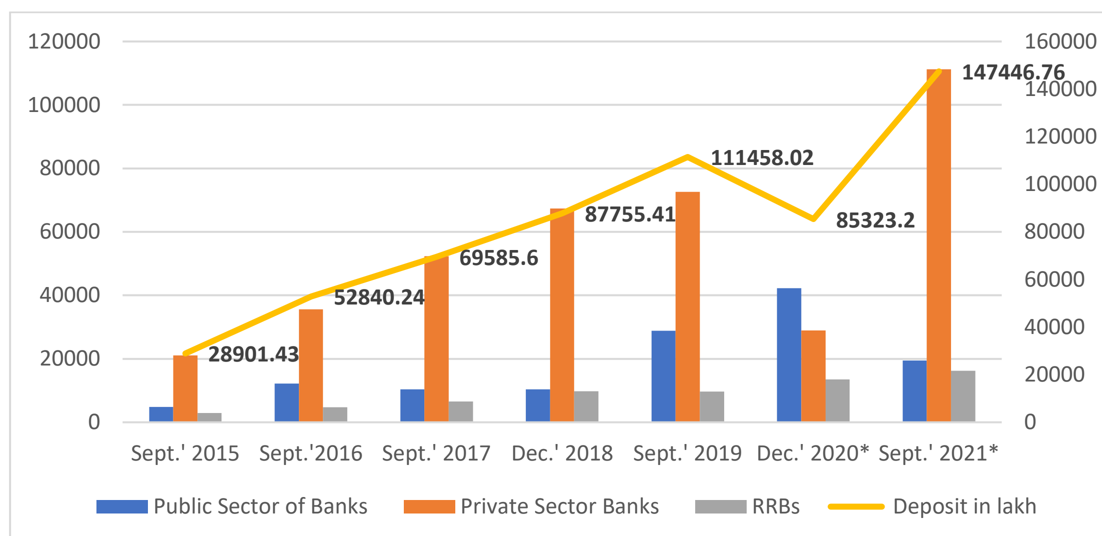
Over the years deposits in PMJDY accounts also increased at a significant rate. Deposits have increased nearly 6.3 times with 2.3 times rise in beneficiaries from August 2015 to August 2021. It clearly indicates that average deposits in PMJDY accounts also increased over the time period. In 2015, the average deposit was Rs. 1,279 which rose to Rs. 3,353 in August 2021. Increase in average deposit is another indication of increased usage of accounts and inculcation of saving habit among account holders. Cumulative deposits trends of the accounts opened under the scheme of Pradhan Mantri Jan Dhan Yojana both in India and Jammu & Kashmir are shown in Figure 4.11 and Figure 4.12 respectively. It is found out that the deposits in such accounts increased significantly over the years right from the inception of the scheme. In Jammu and Kashmir, a drastic decline has been recorded.

**Figure 4.11: Deposits under PMJDY Accounts in India (amount in Rs. crore) (2015-2021)**




*Source: Author's calculations using data from Pradhan Mantri Jan-Dhan Yojana, Department of Financial Services, Ministry of Finance (pmjdy.gov.in).*

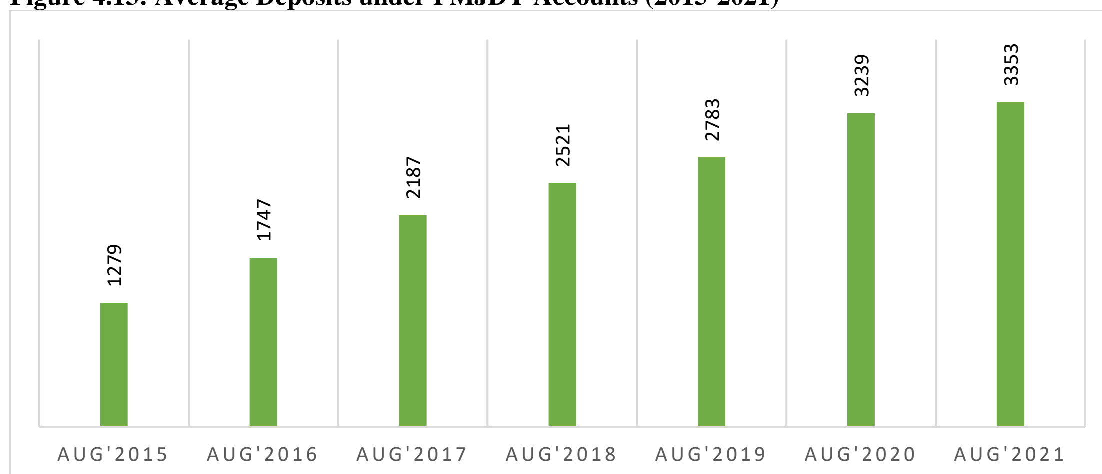
**Figure 4.12: Deposit under PMJDY accounts in J&K (amount in Rs. Lakh) (2015-2021)**




*Source: JKSLBC Agenda, various issues*

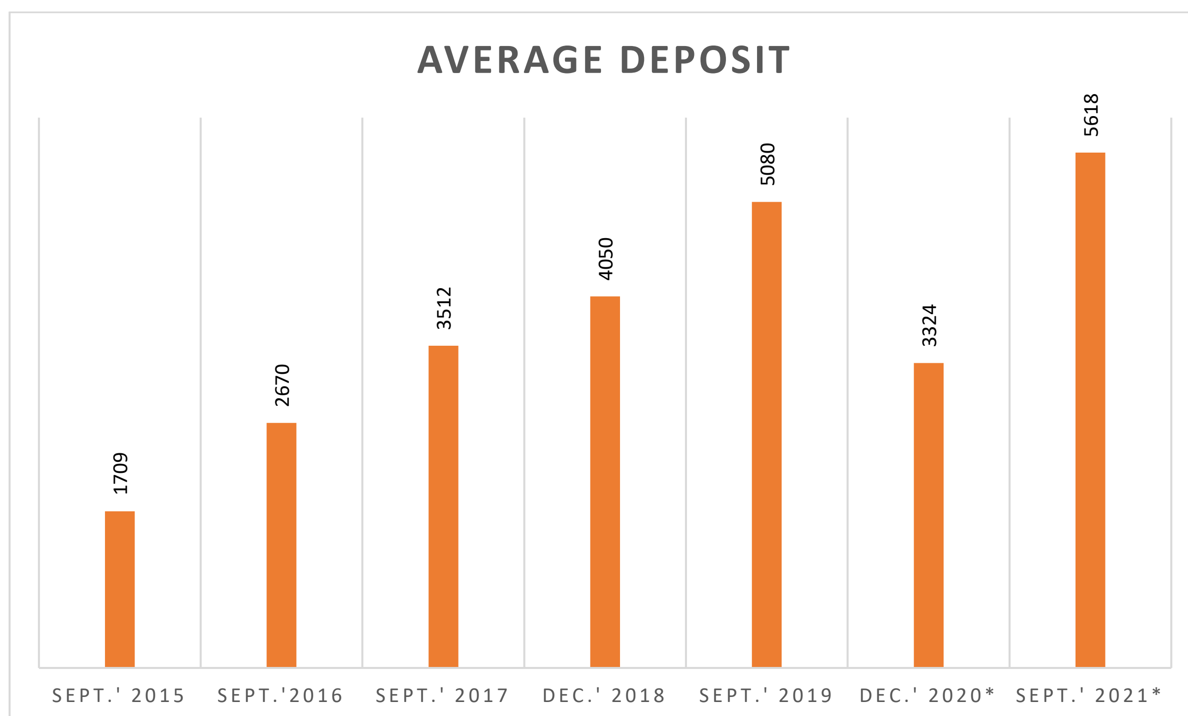
The data for the Ladakh region has been unavailable for the year 2020 and 2021, but the average savings also decreased for the respective years. The covid-19 pandemic might be the possible reason for this downfall in the overall deposits and average deposits in Jammu and Kashmir. The average deposits in the PMJDY accounts for India and Jammu & Kashmir has been illustrated through chart in the figure 4.13 and 4.14 respectively.

**Figure 4.13: Average Deposits under PMJDY Accounts (2015-2021)**




*Source: Author's calculations using data from Pradhan Mantri Jan-Dhan Yojana | Department of Financial Services | Ministry of Finance (pmjdy.gov.in)*

**Figure 4.14: Average Deposit in PMJDY accounts in J&K. (2015-2021)**

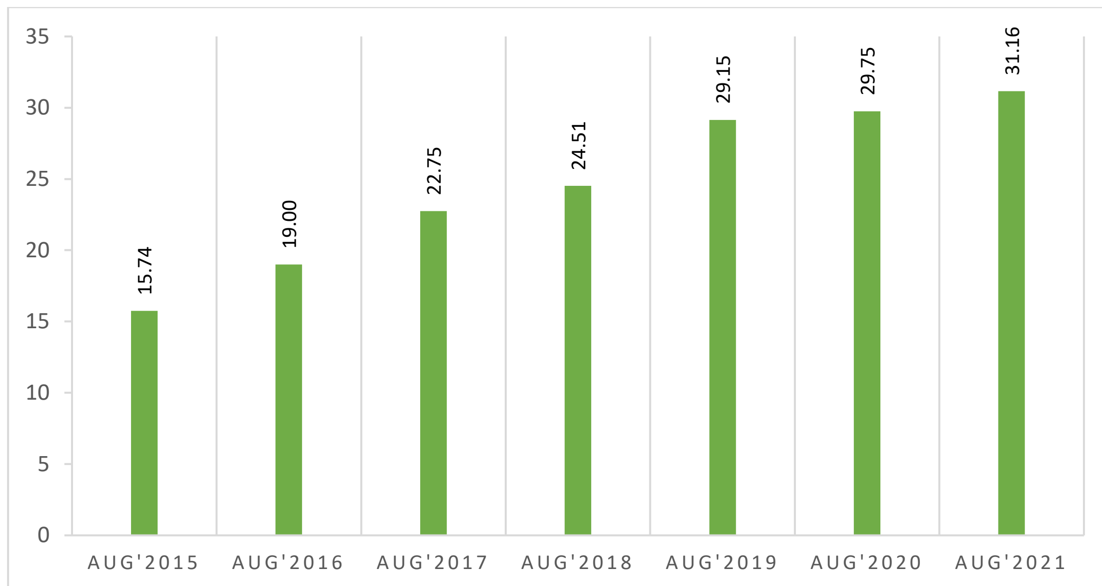



*Source: JKSLBC Agenda, various issues*

**RuPay Debit Card Distribution under PMJDY Accounts**

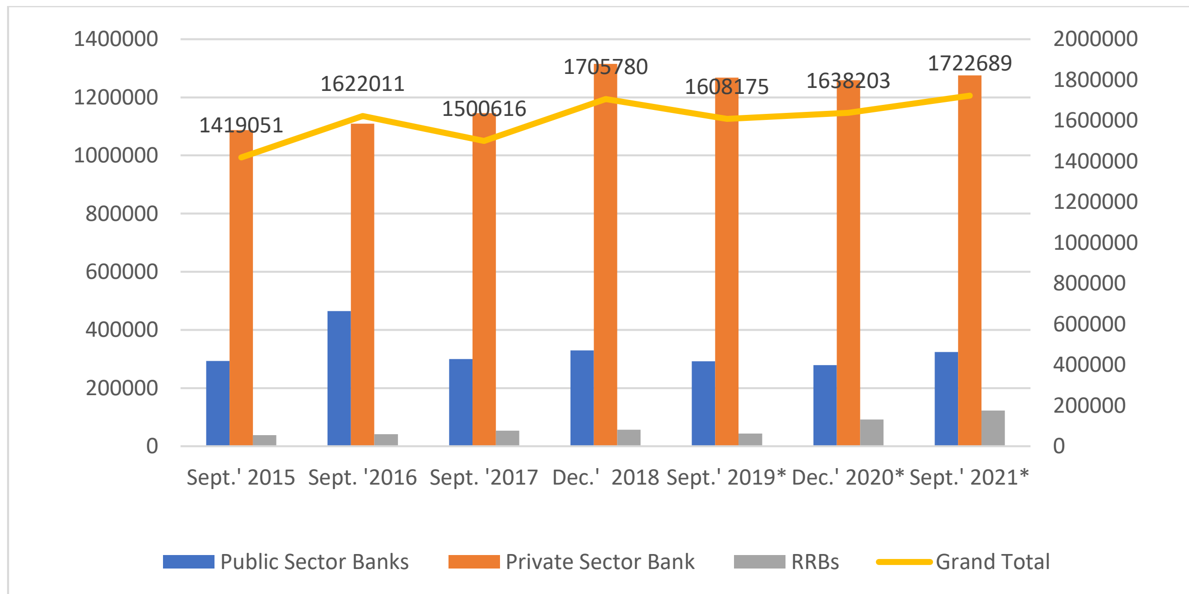
Distribution of RuPay debit card among the beneficiaries is also one of the important components of National Mission of Financial Inclusion (PMJDY). In August 2015, 15.74 crore RuPay debit cards were distributed out of 17.9 crore beneficiaries. After 7 years from its inception, 31.16 crore RuPay debit cards were distributed till August 2021 which is nearly 73 percent of total accounts opened under PMJDY. In Figure 4.15 and 4.16, the year wise progress in RuPay card distribution under PMJDY is shown for India and Jammu & Kashmir respectively from the year 2015 to 2021. In Jammu and Kashmir, it is been observed that nearly 84 percent of PMJDY account holders in the UT received RuPay debit cards, while the proportion of debit cards to the number of accounts opened continuously became favourable over the years. Nearly 66 percent of the account holders had debit cards as of September 30th, 2021.

**Figure 4.15: Number of RuPay Debit Cards Distributed to PMJDY Account Holders in India (in crore) (2015-2021)**




*Source: Author's calculations using data from Pradhan Mantri Jan-Dhan Yojana, Department of Financial Services, Ministry of Finance (pmjdy.gov.in)*

**Figure 4.16: Number of RuPay Debit Cards linked with PMJDY Accounts in Jammu & Kashmir (2015-2021)**




*Source: JKSLBC/UTSLBC Meetings Agenda (various issues)*

**Data for the respective years excludes the Ladakh region*

Overall, this initiative of financial inclusion performed well in the fundamental objective of providing the Basic Saving Bank Account to the financially excluded section of society in Jammu and Kashmir. In other subsequent features of the model, like debit card distribution, there is still a significant proportion that is being uncovered. As there is no minimum balance maintenance needed for account holding under this scheme, a large proportion of accounts, which is nearly 14 percent, have zero balances.

In the table 4.5 a cumulative statistic of performance of PMJDY in Jammu & Kashmir is drawn. It is clearly seen that more than 68 percent of PMJDY accounts in J&K under PMJDY are opened by private sector banks, which distinguish it from other states and UTs of India where public sector banks are most dominant in implementing the PMJDY scheme. It is found out that in Jammu and Kashmir, private sector bank is the dominant sector in the implementation and achievement of Pradhan Mantri Jan Dhan Yojana particularly in the influence of Jammu & Kashmir bank. Unlikely, across the country the public sector banks are at top in providing the services under the umbrella of the said scheme.

Out of the total accounts opened by private sector banks, nearly 62 percent accounts are being opened in rural areas, where other banks opened most of the accounts in urban areas. As of September 2021, the achievement of the assigned target was considerably low specifically by the public sector banks. Nearly 14 percent of the accounts opened under the scheme are still inoperative and more than 34 percent accounts are not linked with the debit card facility which is also one of the important segments of this scheme.

**Table 4.5 Progress of Pradhan Mantri Jan Dhan Yojana (PMJDY) in Jammu & Kashmir as on 30.09.2021**

| Banks | No. of Accounts Opened Under PMJDY since its Inception | | | Target Assigned to be at Par with National Average of 31% | Percentage Achievement of the Assigned Target | Balance | | | RuPay Debit Card | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Rural | Urban | **Total** | | | Amount Deposited (in Lacs) | No. of Zero Balance Account | %Age of Zero balance account | No. of RuPay Debit Cards Issued | Percentage of RuPay Debit Cards to Total Account Holders. |
| **Public Sector Banks** | 146567 | 264503 | **411070** | 985728 | 41.70 | 19415.27 | 48378 | 11.77 | 324056 | 78.83 |
| **Private Sector Banks** | 1104659 | 686322 | **1790981** | 2160672 | 82.89 | 111192.1 | 253937 | 14.18 | 1275781 | 71.23 |
| **Regional Rural Banks** | 322372 | 60354 | **382726** | 722432 | 52.98 | 16235.9 | 56838 | 14.85 | 122852 | 32.10 |
| **Coop. Banks** | 0 | 39689 | **39689** | 71808 | 55.27 | 603.49 | 2355 | 5.93 | 4759 | 11.99 |
| **Grand Total** | **1573598** | **1050868** | **2624466** | **3940640** | **66.60** | **147446.8** | **361508** | **13.77** | **1727448** | **65.82** |

*Source: 5th UTLBC Meeting Agenda, Source: J&K UTLBC: (jkslbc.com)*

As of September 2021, the achievement of the assigned target was considerably low specifically by the public sector banks. Nearly 14 percent of the accounts opened under the scheme are still inoperative and more than 34 percent accounts are not linked with the debit card facility which is also one of the important segments of this scheme.

### 4.1.12 Know Your Customer (KYC) Norms

In the US in late 1990s, know your customer (KYC) norms were introduced to restrict money laundering and terrorist financing[20]. In this regard, as part of Know your customer principle, RBI had issued several guidelines in relation of identification of bank customers and advised banks to follow the respective procedure to control or minimise financial fraud, identify money laundering and other finance related suspicious activities[21]. of directed all commercial banks and other financial institutions to put in practice a policy framework to know their customer before opening any account. Regarding the Indian banking sector, some of the earliest procedures done (instructions provided) regarding KYC include the following. In fact, these guidelines have existed for around the previous 50 years, since 1965[22].

- 1965 - Banks were required to record the complete and accurate addresses of depositors (Benami accounts & avoidance of tax).
- 1976 - In order to confirm the identity of account holders and prevent benami accounts, the idea of Introduction was mandated for account establishment.
- 1987 - An introducer's account should be open for at least six months before he can bring a new client to the bank. Whenever a new account is created, care must be taken to ensure that the account user can be identified and located in the event of fraudulent activity.

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[20] Gomez, G, *Banking and Finance- Theory, Law and Practice*, PHI Learning Pvt. Ltd.., New Delhi, 2011, p. 260.
[21] Reserve Bank of India – Notifications, DBOD.AML.BC.18/14.01.001/2002-03, (rbi.org.in).
[22] Speech delivered by Shri R Gandhi, Deputy Governor, Reserve Bank of India, on KYC: Compliance vs Convenience at Federation of Andhra Pradesh Chambers of Commerce and Industry, Hyderabad on 23rd May 2014.

- 1991 - No cash transactions over 50,000/- for TCs, DDs, MTs, and TTs.
- 1993 - Banks must be vigilant for excessive cash withdrawals by customers. This may be disproportionate to their typical company needs and instances of exceptional tendencies.
- Beginning on January 1, 1994, When a bank opens a new operative account, it must take photographs of the depositors and account holders who are authorised to use the accounts.
- 1995 - Monitoring and special reporting for cash transactions over ten million rupees.
- 1999 - Postal confirmation from both the client and introducer prior to check book issuance
- 2002 – KYC circular: In the guidelines, RBI directed to banks that for KYC procedure to entails verification of new customer verification through introductory reference from an already account holder or a person known to bank or on the basis of documents which are being provided to the bank. Further, apart from new accounts, RBI also mentioned the procedure of KYC for existing accounts, monitoring and ceiling of cash transactions and risk management.

On November 29th, 2004, In accordance with section 35 (A) of the Banking Regulation Act 1949, the RBI issued Know Your Customer guidelines to the CEOs of all commercial banks.

The guidelines are divided into four points, viz. Customer Acceptance Policy, Customer Identification Procedure, Monitoring of Transactions Risk Management.

In August 2005, the KYC requirements for opening bank accounts were relaxed for small accounts with balances of less than Rs. 50,000 and overall credits of less than Rs. one lakh per year, simplifying the procedure by stipulating that an introduction by an account holder who had undergone a full KYC drill would be enough on its own for opening such accounts, or the bank could take any evidence as to the customer's identity and address that satisfied the bank (Chakrabarty, 2021). It was further eased to include work cards provided under the National Rural Employment Guarantee Act (NREGA), an officially signed document by a state government officer, and as well as letters issued by the Unique Identification Authority of India containing name, address, and Aadhaar details, which can also be used to fulfill as KYC norms.

## 4.2 Financial Literacy

Since a long time ago, governments have emphasised the significance of financial literacy. Additionally, some attempts have been done in this respect. In January 2003, the then-prime minister Atal Behari Vajpayee highlighted the need of financial literacy when he launched the national securities market awareness campaign organised by the Securities and exchange board of India (SEBI). He had mentioned that India has a long history of saving and investing. According to him, financial literacy is necessary since India's rural heartland was becoming rich, such as in regional regions where the media was seeing a rapid expansion (Karmakar et al., 2011).

The Organization for Economic Co-operation & Development (OECD) defined the term of Financial Literacy as well as Financial Education distinctly. The term Financial Literacy is defined as "*a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being*" (Organisation for Economic Co-operation and Development, 2012). Financial Education, on the other hand is defined as "*the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being*" (OECD, 2005). Clearly, Financial Education and Financial Literacy are not synonymous, although they are the related ideas as the process of financial education leads to the attainment of Financial Literacy. The attainment of Financial Literacy helps individuals to make prudent financial decisions, resulting in their financial well-being. Users who have attained Financial Literacy are in a better position to make decisions that are in their best interests financially. The process of these ideas is illustrated as:

### 4.2.1 Financial Literacy Initiatives by Stakeholders

As the financial sector is not limited to the country's core banking system, rather it also includes other financial institutions. Various financial sector players have made a number of noteworthy initiatives to promote financial literacy, which are covered in the following sub-sections.

**National Centre for Financial Education (NCFE):**

Through seminars, workshops, conclaves, trainings, programmes, campaigns, and discussion forums, as well as with the assistance of institutions and organisations, the NCFE creates financial awareness and enables all segments of the population through financial education campaigns throughout the country. Workbooks, worksheets, publications, brochures, booklets, flyers, and technical aids are produced. NCFE creates relevant financial literature on financial markets and financial digital modes for a specific audience in order to increase their financial knowledge, comprehension, and abilities (RBI, 2021).

NCFE is implementing a financial education campaign through financial education programmes such as MSSP for schools, FETP for the teachers in educational institutions, FACT for the students in undergraduate and postgraduate courses, and FEPA for financial education programme for adults.

**Stock Exchange Board of India (SEBI):**

SEBI's fundamental financial education efforts are categorised into different aspects as follows:

a) Resource-based financial education financial literacy programme. SEBI trains and appoints RPs in the districts who can deliver free workshops in local language and are

compensated. Five Target groups encompass finance, banking, insurance, pensions, and investments (viz. Home Makers, Self-Help groups, Executives, Middle Income Groups, Retired personnel). Workshops also provide free financial education related study material and books.

b) Students visit to the SEBI for attaining information regarding its working.
c) Financial Planning, Savings, Investment, Insurance, Pension, Borrowing, Tax Saving, Caution Against Ponzi Schemes, Grievance Redressal, etc.

In addition, SEBI also provide sector-specific financial education such as, investor awareness program, regional seminar and commodity awareness program.

**Insurance Regulatory and Development Authority of India (IRDAI):**

The following are some of IRDAI's most significant initiatives:

a) Seminars, awareness initiatives, Metro Rail promotions and quizzes.
b) Young Corner, a six-game interactive featurette, was released on the website of Policyholders. Additionally, a Hindi version of the website was established to expand its reach.
c) A print campaign was established to warn the general public about the fraudulent calls and offerings. There have been releases of insurance comic novels in 12 vernacular languages.
d) Various insurance-related handbooks, such as Employment Opportunities in Insurance for Students, Crop Insurance, and Right Buying, were published.
e) Five regional languages will be used for a pan-Indian campaign against fraudulent callers using television commercials and radio jingles to promote the utility and benefits of various types of insurance.

**Pension Fund Regulatory and Development Authority (PFRDA):**

In 2018, PFRDA developed a specialised website named "Pension Sanchay." The purpose of this website is to address the need for financial literacy in the context of retirement planning. The website's information was created with the four most crucial financial decision-making ideas in mind: knowledge of interest rates, interest compounding, inflation, and risk diversification. The website features a distinct blog section where posts authored by experts in the financial sectors and officials of the Authority are made available. These blogs give insightful commentary on the basics of finance, banking, and investing. In addition to the aforementioned, PFRDA coordinates the Annuity Literacy Program with NPS Trust and Annuity Service Providers to educate subscribers on the various annuities accessible to them.

**Introduction of Financial Literacy Centres:**

Financial Literacy Centres (FLCs) received amended rules in June 2012. As a result, it was recommended that FLCs and all rural branches of scheduled commercial banks increase their financial literacy efforts by holding outdoor Financial Literacy Camps at least once a month, in order to facilitate financial inclusion by providing two essentials: Financial Literacy and Easy Financial Access. As of the end of March 2013, 718 FLCs had been established and the number of which increased to 1,478 at the end of December 2020.

In a guideline from RBI to all the scheduled commercial banks (including RRBs), financial literacy centres and rural branches were instructed to conduct two types of camps: Special camps for people newly inducted into the financial system (1 camp per month for one year) and target group specific camps (1 camp for each of five

target groups): farmers, small entrepreneurs, school children, seniors, and SHGs[23]. In January 2017, the one-year timeframe for conducting special camps for those newly introduced to the financial system came to an end. 1,48,444 financial literacy events were done in 2019-20 (April-March), the FLCs conducted a total of 45,588 financial literacy activities over the time from April to December 2020.

**Table 4.6 Trend and Performance of Financial Literacy Centres**

| | **2012-13** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **Apr-Dec 2020** |
|---|---|---|---|---|---|---|---|---|---|
| **No. of operational FLCs** | 718 | 942 | 1181 | 1384 | 1376 | 1395 | 1483 | 1467 | 1478 |
| **No. of FL Activities conducted** | 40838 | 56985 | 84089 | 87710 | 96315 | 129280 | 145427 | 148444 | 45588 |

*Source: Reserve Bank of India, Annual Reports (various issues)*

In addition to promote financial literacy among children, one of the strategic aims of NSFE: 2020-2025 is introduced to provide financial literacy curriculum for school-aged children. Thirteen state educational boards have thus far incorporated financial education modules into their education curriculum.

NCFE is in discussion with NCERT on the incorporation of financial education into the curriculum for grades six to ten. NCERT is also producing e-Learning materials on financial literacy, with NCFE assisting to the development of content based on inputs from several stakeholders (Reserve Bank of India, 2021).

[23] https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10222&Mode=0

The constraints placed on large gatherings at public locations have Weak implementation of physical financial education programmes around the nation Having a view to ensure the ongoing distribution of financial education programmes around the nation, regional offices of the Reserve Bank were responsible for financial education programmes delivered over the Internet mode additionally leveraged local cable television and community radio to spread financial awareness messages[24].

### 4.2.2 Financial Literacy week

The Financial Literacy Week (FLW) is an effort by the Reserve Bank to create awareness among the masses/various segments of the community every year on essential themes through a targeted campaign. A week of each year will be designated as Financial Literacy Week beginning in 2017 in an effort by the Reserve Bank to raise public awareness on a variety of important financial inclusion related issues.

The week of June 5-9, 2017 was designated as Financial Literacy Week across the nation. Know Your Customer (KYC), Exercising Credit Discipline, Grievance Redressal, and Going Digital were the focus of the literacy week. During the week, banks were instructed to show posters on the four common themes within branch locations, as well as one message every day on the homepages of their separate websites and ATM displays across the nation[25].

During the week of June 4-8, 2018, Financial Literacy Week was marked with the topic Consumer Protection. The focus of the week was on four consumer protection messages: Know your Liability for Unauthorized Electronic Banking Transactions, Banking Ombudsman, Good Practices for a Safe Digital Banking Experience, and

[24] Annual Report of Reserve bank of India 2020-21.
[25] Reserve Bank of India, Annual Report 2018

Risk vs Return. The activities during the week included the display of financial literacy materials at branch locations, ATMs, and bank webpages, as well as the conduct of financial literacy camps by FLCs[26].

During the week of June 3-7, 2019, Financial Literacy Week was observed on the topic of 'Farmers' and how they benefit from participating in the formal banking system. Posters, pamphlets, and audio-visuals on Responsible Borrowing & Agricultural Finance were created to educate the farming community about the importance of being financially literate.

It was suggested that banks show the posters and information at their rural bank branches, FLCs, ATMs, and internet sites. In addition, throughout the month of June 2019, the Reserve Bank conducted a centralised mass media campaign on Door darshan and All India Radio to deliver crucial financial awareness messages to farmers[27].

During the financial year 2019-20, FLW was observed February 10-14, 2020, with a focus on MSMEs. Information in the format of posters/leaflets and audio visuals on formalisation, collateral-free credit, discounting of receivables, restoration of stressed units, and prompt repayment was developed in order to raise awareness and distribute financial literacy messaging regarding the MSME sector.

In recent times, FLW was observed during the week of February 8-12, 2021, with the subject Credit Discipline and Credit from Formal Institutions, with an emphasis on ethical borrowing, borrowing from formal institutions, and prompt repayments.

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[26] Reserve Bank of India, Annual Report 2019
[27] Reserve Bank of India, Annual Report 2020

During this week, banks were instructed to spread information to their clients and the wider public in order to raise awareness. In addition, the Reserve Bank also undertook a centralised mass media campaign during February 2021 to spread crucial financial awareness messages on the theme to the general masses[28].

[28] Reserve Bank of India, Annual Report 2021

# 5 Financial Inclusion Index: Findings and Analysis

Financial exclusion is a key concern not only for emerging and low-income economies, but also for many developed and high-income countries, as a large proportion of lower-income individuals in these nations lack access to formal financial systems[1]. The significance of an inclusive financial system is widely acknowledged, and financial inclusion is seen as a policy priority in many nations. The various policies of financial inclusion across the world include Legislative measures (e.g., the Community Reinvestment Act of 1997 in the United States, the *Loi du 29 Juillet 1998 contre exclusion* in France, and the 'Financial Inclusion Task Force' of 2005 in the United Kingdom), banking sector initiatives (e.g., the 'everyman' account in Germany, the 'Mzansi' account in South Africa, and the BSBD account no frills account in India), and the introduction of alternate financial institution (e.g., micro finance institutions, Self-Help Groups and mobile phone financial services)[2]. The Alliance for Financial Inclusion (AFI), a global network of financial regulators from developing and emerging economies, was established in 2008 to facilitate peer-to-peer learning from the experiences of other country-specific programmes and initiatives related to financial inclusion.

Globally, the agenda for financial inclusion gained a significant boost in 2011, when AFI members unveiled a set of clear and quantifiable targets for financial inclusion at Global Policy Forum in Mexico's Riviera Maya to which they made public commitments, known as the Maya Declaration[3]. This set of objectives provides an institutional framework for the public collective commitments of AFI members towards building of all-inclusive

[1] For a review of financial exclusion and policy responses to it in high-income economies, see Kempson *et al*. (2004)
[2] All these initiatives are discussed in detail by (Sarma 2016).
[3] The Maya Declaration is an institutional assurance towards financial inclusion, made by financial regulators that are members of AFI. For more details about AFI and Maya Declaration see the website of AFI: Maya Declaration | Alliance for Financial Inclusion (afi-global.org).

financial systems. Thus, much have been done to promote financial inclusion at global level and various steps are exclusively taken by different economies based on their personal convenience for intra- country boost in financial inclusion.

Understanding the process of financial inclusion pre-requires measuring it from top to bottom. This chapter exclusive deals with one of the objectives of current research i.e., to examine the extent of financial inclusion (exclusion) in Jammu & Kashmir. In (CRISIL Inclusix, 2018) report only one district of J&K, namely Jammu is in top hundred districts in financial inclusion at ranking of 81. There are very a few studies on financial inclusion which covered Jammu & Kashmir. (Chattopadhyay, 2011) in his paper examine the status of financial inclusion in India but he also did not cover Jammu & Kashmir as a part of his study. Some researchers conducted study to know the extent of financial inclusion in J&K, but these are confined to state as a whole and not covered the regional disparity with in the state. In the light of this research gap, this study is being conducted to fill this vacuum.

Politically, Jammu & Kashmir is divided into 3 main regions namely Jammu Region, Kashmir Region, and Ladakh Region. Former two regions comprising of 10 district each while the latter comprise of only 2 districts. Table 5.1 illustrates region wise division of districts in J&K.

**Table 5.1 Region wise Division of Jammu & Kashmir**

| Jammu Region | Kashmir Region | Ladakh Region |
|---|---|---|
| Doda | Anantnag | Kargil |
| Jammu | Badgam | Leh |
| Kathua | Bandipora | |
| Kishtwar | Baramulla | |

| Poonch | Ganderbal | |
|---|---|---|
| Rajouri | Kulgam | |
| Ramban | Kupwara | |
| Reasi | Pulwama | |
| Samba | Shopian | |
| Udhampur | Srinagar | |

## 5.1 How to Measure Financial Inclusion.

The question that arises now is how exactly we are going to measure financial inclusion. Because financial inclusion is a multi-faceted phenomenon, any attempt to assess it will necessarily be incomplete if it excludes important dimensions of the phenomenon. In addition, the data on the many different metrics of financial inclusion bring up serious questions. When it comes to establishing financial services for the poor, whether in formal or informal markets, having data structures that are well-founded is absolutely necessary. A necessary prerequisite condition for accurate measurement of financial inclusion is the presence of appropriate indicators in sufficient numbers (Satyasai & Kumar, 2020). These indicators guarantee that policies aimed at financial inclusion are adequately implemented, monitored, and adjusted as required. Additionally, they ensure that financial inclusion is appropriately evaluated.

## 5.2 Conceptual Issues in measuring Financial Inclusion.

The way financial inclusion is defined is crucial in determining a measure of financial inclusion. Scholars have debated and discussed how to create a scale for financial inclusion. (Honohan, 2008) sought to assess financial inclusion by simply calculating the proportion of the adult population who has access to formal financial services in their

household (in an economy) (i.e., having a bank account). However, such an index only considers one part of the financial system, namely banking penetration, and ignores other important dimensions of the system, such as financial service availability, quality, and consumption. Just because you have a bank account doesn't mean you're using it properly (see Kempson, *et al*. 2004). People who have bank accounts may not utilise them as frequently as they should for a variety of reasons, including the inconvenient location of nearby bank offices and other impediments, both physically and psychologically (Diniz, *et al.* 2012). A significant component of financial inclusion is also the appropriate utilisation of the available financial services.

In his study published in 2004, (Kempson) defined the term "underbanked" or "marginally banked" as referring to individuals who had bank accounts but do not make sufficient use of the funds in such accounts. (Seidman, et al. 2005) discovered that nearly two-thirds of the banked population that were surveyed in a large survey of low-income households in three major cities in the United States of America were actually underbanked or marginally banked. This was due to the fact that these households were utilising informal non-bank services in spite of having formal bank accounts. This highlights the usage component as an additional facet of financial inclusion. Any measurement of financial inclusion that focuses or is limited to a single dimension in order to conduct the measurement, in essence ignore the multidimensional nature of the idea of financial inclusion (Sarma, 2016). Taking into consideration all these issues it become necessary to incorporate an index to measure financial inclusion which keeps all the dimension into one frame.

In order to get an accurate picture of the state of financial inclusion, policymakers have relied on a wide range of indicators of financial sector outreach. The indicators which are utilised most frequently for computing financial inclusion are, the number of bank

accounts, the number of bank branches, the number of automated teller machines (ATMs), the amount of bank credit, and the volume of bank deposits. Other metrics of banking sector outreach are utilised in (Beck et al., 2007) study are geographic branch penetration, per-capita loan and deposit accounts, loan-income and deposit-income ratios, and many others. The Global Findex database (Demirguc-Kunt & Klapper, 2012), which is a project of the World Bank, offers some intriguing indicators of financial inclusion from a micro (individual) viewpoint. These indicators are based on primary surveys of people in many different countries.

These indicators, both at the micro level and at the macro level, do deliver interesting and important information on the various dimensions of the inclusiveness of a financial system only when incorporated together. On the other hand, when taken individually, they may only offer information that is inadequate or insufficient regarding the inclusivity of the financial system. When all of the indicators are combined into a single index, information on numerous aspects of financial inclusion may be incorporated into the measure, which will result in a more complete picture. The literature has fully recognised the advantages of using an index-based approach to measure financial inclusion rather than an indicator-based approach, and numerous attempts by ( Sarma-2008,2012,2015) (Pais & Sarma, 2011), (Chakravarty & Pal, 2013) , (Piñeyro, 2013), (Cámara & Tuesta, 2014), (Amidžić *et al*., 2014) have been made to devise multidimensional indices for financial inclusion. Each approach to building an index to measure financial inclusion discussed above have its own advantages and limitations. Nevertheless, the Index of Financial Inclusion (IFI) serves as a reliable and initiative measure of financial inclusion from the policy point of view. In addition to satisfying the desirable mathematical criteria as was stated earlier Sarma 2015, the IFI does not suffer from an intrinsic lack of robustness, nor does it suffer from the difficulty of perfect substitutability of averaging. In

light of this, one of the goals of this research was to attempt to compute IFI values for each of the districts of Jammu and Kashmir for the years 2011, 2016, and 2021.

The characteristics of a complete, relevant, and mathematically robust IFI that encompasses measurable elements of an inclusive financial system were outlined in (Sarma, 2015). To make it simple to read and helpful for comparisons between economies and across time, we must guarantee that it possesses the following desirable characteristics:

1. Unit free measure: The IFI ought to be a unit free measure in order for us to be able to compare values across countries and over the course of time.
2. Boundedness: The IFI need to be a bounded function so that its values can be interpreted in an unpretentious manner. In other words, it ought to be constrained below by a number that exemplifies the system that is the least inclusive, and it ought to be constrained above by a number that exemplifies the system that is the most inclusive. For instance, 0 and 1, respectively, could serve as lower and upper boundaries because they are simple and easy to comprehend.
3. Monotonicity: The IFI ought to be an increasing function of its dimensions; keeping other variable being constant, more achievements in any given dimension ought to give rise to higher values of the IFI.
4. Homogeneity: If the values of each dimension in the IFI are modified by the constant amount, then the overall value of the IFI should not be affected by the change. This aspect of an index's functionality is also referred to as its scale invariance property. To speak in terms of mathematics, the IFI ought to be a homogeneous function of degree zero.

Index of Financial Inclusion (IFI) designed by Mandira Sarma is well adjusted all these characteristics and constructed using a 'distance-based' technique. The IFI is calculated by averaging the distance between the best and worst possible outcomes (Sarma., 2015). As a result, a high IFI score indicates that we are quite close to the ideal. and a long way from the worst-case scenario. As a result, its message is clear and comprehensible. We conceptualise the IFI in the next subsection.

## 5.3 Index of Financial Inclusion.

The technique that has been utilised in this research to compute the Index of Financial Inclusion is discussed by (Sarma, 2008, 2010, 2012 and 2016) in depth. The approach comprises the subsequent steps:

- Identification of Financial Inclusion Dimensions
- Calculation of dimension indexes that, when combined, constitute the achievement point for each district of Jammu and Kashmir included in the research.
- Identifying the two reference points - the ideal position and the worst point - is the third step.
- The Index of Financial Inclusion is calculated by averaging the inverse distance between the district's achievement point and the ideal, as well as its distance from the worst point.

### 5.3.1 Dimensions of financial Inclusion

In the IFI estimates reported in this study, we analyse three fundamental dimensions of an inclusive financial system: banking penetration (BP), the availability of banking services (BS), and the usage of financial services (BU). These dimensions are significantly influenced by the availability of relevant and consistent data for all Jammu and Kashmir

districts in order to compute comparable IFI. The next section discusses the computation of dimension indexes and district wise dimension index for all the district of Jammu & Kashmir.

### 5.3.2 Computation of dimension indexes.

After the dimensions are determined, the first stage in calculating the index of financial inclusion (IFI) is to use a dimension index to determine each district's level of achievement in relation to the various dimensions of financial inclusion. This will be done after the dimensions have been determined. The *i*th dimension of financial inclusion is measured by the dimension index $d_i$, which is determined using the formula (1)[4], and it indicates how efficient a district has been in achieving the *i*th dimension ($i$ indicates either availability, or penetration or usage of banking system).

$$\boldsymbol{d_i = w_i \frac{A_i - m_i}{M_i - m_i}} \qquad \textbf{(1)}$$

where,$w_i$ denotes weight assigned to the dimension I, 0 $w_i$ 1.

$A_i$ denotes the actual value of any dimension $i$.

$M_i$ denotes the upper limit on the value of any dimension $i$, fixed by some pre-specified rule.

$m_i$denotes the lower limit on the value of any dimension $i$, fixed by some pre-specified rule.

**Choices of $w_i$, $M_i$ and $m_i$ for dimension indexes.**

[4] This formula is mathematically similar to that of UNDP's dimension index formula for Human Development Index (HDI).

For an inclusive system, all three dimensions discussed here are equally significant and should be given equal weight. However, due to a lack of reliable data on critical variables that fully describe the availability and usage dimensions, we have given these dimensions in the current index a lower weight. In terms of banking services, it should be mentioned that many nations have shifted to online banking, which has reduced the relevance of physical bank branches. Telephone banking is also available in several countries and plays a major role in accessing financial services particularly in Sub-Saharan region (Jukan & Softić, 2016). As a result, relying solely on data from physical outlets (such as bank branches, mobile money outlets, and ATMs) may provide an inadequate picture of banking service availability. Similarly, statistics on credit, deposit, and mobile money transaction volume can only provide a limited picture of financial system usage because other banking services like payments, transfers, and remittances are not included. A thorough identification of these dimensions is impossible without such data. We have given the following weights to the current index: 1 for banking penetration, 0.5 for availability, and 0.5 for usage. These weights may appear random, but they are based on the assumption that we only have sufficient data to capture 50 percent of the availability and usage dimension at present. When adequate data on all dimensions is provided, the weights may be adjusted accordingly.

The computation of the dimension indexes also involves an a-priori setting of the value of $M_i$ (upper limit) and mi (lower limit) for each dimension. This is done to ensure that the dimension indexes are normalised to have values that fall somewhere between 0 and $w_i$. While the lower bound for all of the dimensions listed above may be set to 0, setting the upper bound is more difficult, since theoretically it is not possible to arrive at a maximum or even an optimum degree of

attainment for a financial inclusion dimension. Analytically, and employing a clear and objective methodology, the empirically observed maximum value of a dimension can be regarded as its upper limit.

- **Banking Penetration (Dimension 1):**

  A system that is inclusive should have as many users as feasible; thus, an inclusive financial system should have widespread penetration among its consumers. The size of the banked population, i.e., the percentage of the population with a bank account, is a measure of the banking system's penetration. Consequently, if every individual in an economy has a bank account, the value of this dimension is 1. In the lack of easily available data on the number of banked individuals, we consider the number of deposit bank accounts per 1,000 adults as an indicator of this dimension. It is reasonable to predict a positive correlation between the ratio of deposit Bank accounts to adult population and the proportion of banked population, which justifies using the ratio of deposit Bank accounts to the adults as a proxy for the banked population. Data on all demographic features has been obtained from Census of India (various reports) and for district level projected population is calculated using ratio method of population projection. While considering the number of deposit accounts for this research, the data has been extracted from Reserve Bank of India's basic statistical returns (various issues) which includes all the scheduled commercial banks. Consequently Jammu & Kashmir state level bankers committee agenda (various issues) are also been accessed for data on this dimension. A detailed trend of penetration dimension for all the districts of Jammu & Kashmir for the year 2011, 2016 and 2021 has been presented in the Table 5.2.

**Table 5.2 Computed Values of Penetration Dimension**

| | Districts | Penetration Dimension 2011 | Penetration Dimension 2016 | Penetration Dimension 2021 |
|---|---|---|---|---|
| 1 | **Anantnag** | 0.332 | 0.450 | 0.477 |
| 2 | **Badgam** | 0.293 | 0.467 | 0.518 |
| 3 | **Bandipora** | 0.261 | 0.397 | 0.480 |
| 4 | **Baramulla** | 0.395 | 0.515 | 0.607 |
| 5 | **Doda** | 0.356 | 0.515 | 0.567 |
| 6 | **Ganderbal** | 0.357 | 0.538 | 0.567 |
| 7 | **Jammu** | 1.000 | 1.000 | 1.000 |
| 8 | **Kargil** | 0.538 | 0.533 | 0.608 |
| 9 | **Kathua** | 0.547 | 0.643 | 0.742 |
| 10 | **Kishtwar** | 0.407 | 0.569 | 0.639 |
| 11 | **Kulgam** | 0.307 | 0.511 | 0.613 |
| 12 | **Kupwara** | 0.265 | 0.399 | 0.503 |
| 13 | **Leh** | 0.842 | 0.859 | 0.872 |
| 14 | **Poonch** | 0.371 | 0.482 | 0.576 |
| 15 | **Pulwama** | 0.344 | 0.460 | 0.538 |
| 16 | **Rajouri** | 0.403 | 0.552 | 0.646 |
| 17 | **Ramban** | 0.350 | 0.479 | 0.569 |
| 18 | **Reasi** | 0.355 | 0.563 | 0.661 |
| 19 | **Samba** | 0.665 | 0.773 | 0.923 |
| 20 | **Shopian** | 0.284 | 0.497 | 0.567 |
| 21 | **Srinagar** | 0.913 | 0.698 | 0.631 |
| 22 | **Udhampur** | 0.472 | 0.568 | 0.603 |

*Source: Author's Calculation*

Among the districts, Jammu district become the more inclusive in terms of penetration of banking services for the year 2021. Geographically, Jammu district is the epicenter of

Jammu & Kashmir specifically of Jammu region. The adjacent district to Jammu like Samba, Kathua and Rajouri also scored well in this dimension of index. In Kashmir region, Srinagar district become on top in penetration dimension followed by Kulgam. In the Ladakh region, Leh district is well off in penetration dimension with 3rd overall ranking in the state. Anantnag, Bandipora and Kupwara are the worst performing district in the state for penetration dimension of the index. In the following sub-sections, other dimensions of banking services have been illustrated for the years 2011, 2016 and 2021.

- **Availability of Banking Services (Dimension 2).**

  A further characteristic (dimension) of an inclusive financial system is the availability of banking services. Banking outlets (administrative offices, bank branches, ATMs, and so on) are indicators of the availability of banking services. Thus, the availability of services can be measured by the number of bank branches and/or ATMs per 1,000 people. In the present index, only number of bank branches dimension is used to predict the availability of financial services as there is lack of data availability on number of ATMs outlets and other indicators. In this research only number of bank branches and offices outlets are being used as data on other variable like district wise number of ATMs outlets is not available.[5] The findings of availability dimension of the index are illustrated in Table 5.3.

**Table 5.3 Computed Values for Availability Dimension**

| | Districts | Availability Dimension 2011 | Availability Dimension 2016 | Availability Dimension 2021 |
|---|---|---|---|---|
| 1 | **Anantnag** | 0.179 | 0.178 | 0.137 |
| 2 | **Badgam** | 0.171 | 0.207 | 0.150 |
| 3 | **Bandipora** | 0.157 | 0.156 | 0.126 |

[5] The data for this dimension were extracted from https://dbie.rbi.org.in. last accessed in May 2022.

| 4 | **Baramulla** | 0.299 | 0.248 | 0.185 |
|---|---|---|---|---|
| 5 | **Doda** | 0.229 | 0.206 | 0.165 |
| 6 | **Ganderbal** | 0.266 | 0.224 | 0.161 |
| 7 | **Jammu** | 0.500 | 0.475 | 0.357 |
| 8 | **Kargil** | 0.229 | 0.256 | 0.242 |
| 9 | **Kathua** | 0.304 | 0.268 | 0.211 |
| 10 | **Kishtwar** | 0.140 | 0.187 | 0.163 |
| 11 | **Kulgam** | 0.214 | 0.203 | 0.156 |
| 12 | **Kupwara** | 0.165 | 0.145 | 0.109 |
| 13 | **Leh** | 0.483 | 0.500 | 0.500 |
| 14 | **Poonch** | 0.135 | 0.143 | 0.117 |
| 15 | **Pulwama** | 0.209 | 0.212 | 0.181 |
| 16 | **Rajouri** | 0.205 | 0.207 | 0.162 |
| 17 | **Ramban** | 0.165 | 0.165 | 0.137 |
| 18 | **Reasi** | 0.279 | 0.286 | 0.214 |
| 19 | **Samba** | 0.368 | 0.428 | 0.309 |
| 20 | **Shopian** | 0.198 | 0.223 | 0.171 |
| 21 | **Srinagar** | 0.372 | 0.305 | 0.220 |
| 22 | **Udhampur** | 0.253 | 0.230 | 0.178 |

*Source: Author's Calculation.*

Among all the regions in Jammu and Kashmir, Jammu region and Ladakh region are considerably well off in terms of availability of banking services while Kashmir region has comparatively less availability of banking services. among the districts as in 2021, Leh, Jammu and Samba districts are on the top while Kupwara, Poonch and Bandipora have least availability of banking services. Over the time periods, there is a continuous downfall in being recorded in terms of availability as the number of bank branches are increased less with respect to population growth in different districts of Jammu and Kashmir.

- **Usage of Banking Services (Dimension 3)**

  According to Kempson et al. (2004) this dimension is prompted by the concept of "underbanked" or "marginally banked" individuals. They have noticed that in several ostensibly highly banked nations, a number of individuals having bank accounts use the available services only sparingly. Utilization of financial services can occur in a variety, including credit, deposit, payments, remittances, transfers, etc., hence the usage dimension should include data on all of these forms. However, data on payments, remittances, and transfers at the district or even state level are not yet available. Incorporating the usage dimension into the current index, the following indicators are considered: Total credit and deposit volumes as a percentage of gross district domestic product.

**Table 5.4 Computed Values for Usage Dimension**

| | Districts | Usage Dimension 2011 | Usage Dimension 2016 | Usage Dimension 2021 |
|---|---|---|---|---|
| 1 | **Anantnag** | 0.084 | 0.106 | 0.106 |
| 2 | **Badgam** | 0.061 | 0.106 | 0.114 |
| 3 | **Bandipora** | 0.048 | 0.075 | 0.074 |
| 4 | **Baramulla** | 0.105 | 0.132 | 0.123 |
| 5 | **Doda** | 0.075 | 0.096 | 0.113 |
| 6 | **Ganderbal** | 0.077 | 0.104 | 0.110 |
| 7 | **Jammu** | 0.406 | 0.497 | 0.485 |
| 8 | **Kargil** | 0.139 | 0.185 | 0.232 |
| 9 | **Kathua** | 0.125 | 0.178 | 0.190 |
| 10 | **Kishtwar** | 0.079 | 0.113 | 0.137 |
| 11 | **Kulgam** | 0.074 | 0.104 | 0.110 |
| 12 | **Kupwara** | 0.048 | 0.068 | 0.077 |
| 13 | **Leh** | 0.297 | 0.409 | 0.500 |

| | | | | |
|---|---|---|---|---|
| 14 | **Poonch** | 0.078 | 0.096 | 0.108 |
| 15 | **Pulwama** | 0.091 | 0.130 | 0.145 |
| 16 | **Rajouri** | 0.085 | 0.109 | 0.132 |
| 17 | **Ramban** | 0.077 | 0.093 | 0.100 |
| 18 | **Reasi** | 0.111 | 0.149 | 0.148 |
| 19 | **Samba** | 0.188 | 0.259 | 0.295 |
| 20 | **Shopian** | 0.098 | 0.148 | 0.139 |
| 21 | **Srinagar** | 0.500 | 0.500 | 0.403 |
| 22 | **Udhampur** | 0.109 | 0.146 | 0.149 |

*Source: Author's Calculation*

The descriptive statistics as in Table 5.4 shows that the utilisation dimension of the financial inclusion index has improved over time but in some districts, the value for the dimension decreased for the year 2021. Districts that are functioning well earlier such as Srinagar and Jammu, have also showed a fall in this dimension for 2021. The key factors in this deterioration might be the influence of Covid-19 and the reorganisation of the state of Jammu and Kashmir.

### 5.3.3 Computation of IFI

With the aforementioned specifications of choices for weights, upper bounds, and lower bounds, we are then able to represent a district by a point $(d_p, d_a, d_u)$ in the three-dimensional space, where $d_p$ , $d_a$ and $d_u$ are the dimension indexes for the district that were computed using the formula (1). With these specifications, it is abundantly clear that in the current scenario, $0 \leq d_p \leq 1$, $0 \leq d_a \leq 0.5$ *and* $0 \leq d_u \leq 0.5$. In the three-dimensional space, the point (0,0,0) indicates the worst possible situation (complete exclusion), and the point (1,0.5,0.5) indicates the best or ideal possible situation (complete financial inclusion) in the present context. A district that has a financial system that is more inclusive than another district should be closer to the ideal point than the

district that has a financial system that is less inclusive. In a similar vein, a nation that has a financial system that is more inclusive should be located further away from the lowest point than an area that has a financial system that is less inclusive. The simple average of the normalised Euclidean distance of the point $(d_p, d_a, d_u)$ from the point (0,0,0) and its normalised inverse Euclidian distance from the ideal point (1, 0.5, 0.5). We propose an index of financial inclusion that takes an easy mean of the normalised Euclidean distance between X and 0 (denoted by X1, formula (2)) and the normalised inverse Euclidean distance between X and W (denoted by X2, formula (3)).

Algebraically,

$$X_1 = \frac{\sqrt{d_1^2+d_2^2+\cdots+d_n^2}}{\sqrt{w_1^2+w_2^2+\cdots+w_n^2}} \tag{2}$$

$$X_2 = 1 - \frac{\sqrt{(w_1-d_1)^2+(w_2-d_2)^2+\cdots+(w_n-d_n)^2}}{\sqrt{(w_1^2+w_2^2+\cdots+W_n^2)}} \tag{3}$$

$$\text{IFI}=\frac{1}{2}\,[X_1 + X_2]$$

$$\text{IFI}=\frac{1}{2}\left[\frac{\sqrt{d_p^2+d_a^2+d_u^2}}{\sqrt{1\cdot 5}} + \left(1 - \frac{\sqrt{\left(1-d_p\right)^2+(0\cdot 5-d_a)^2+(0.5-du)^2}}{\sqrt{1\cdot 5}}\right)\right] \tag{4}$$

It's easy to make sure that the index of financial inclusion proposed here has all of the desirable properties enumerated earlier. An economy with more inclusive financial system should be closer to the ideal point W than one with a less inclusive financial system. Similarly, a district with more inclusive financial system should be far from point O than one with a less inclusive systems. The country, state or district's IFI is the average of the normalised distance between O and X and the inverse normalised distance between W and X. A cumulative result of financial inclusion index for all the dimension is

illustrated where we see a huge difference among the different regions and district as well. Each district's performance on the financial inclusion index for the years 2011, 2016, and 2021 is summarised in the table 5.5.

**Table 5.5 Index of Financial Inclusion for the Districts of Jammu & Kashmir**

| Districts | IFI 2011 | IFI 2016 | IFI 2021 | Rank |
|---|---|---|---|---|
| Jammu | 0.947 | 0.949 | 0.918 | 1 |
| Leh | 0.809 | 0.903 | 0.906 | 2 |
| Samba | 0.625 | 0.826 | 0.797 | 3 |
| Srinagar | 0.888 | 0.725 | 0.626 | 4 |
| Kathua | 0.508 | 0.667 | 0.622 | 5 |
| Kargil | 0.482 | 0.567 | 0.563 | 6 |
| Reasi | 0.370 | 0.604 | 0.559 | 7 |
| Rajouri | 0.367 | 0.567 | 0.527 | 8 |
| Kishtwar | 0.347 | 0.575 | 0.525 | 9 |
| Udhampur | 0.436 | 0.589 | 0.511 | 10 |
| Baramulla | 0.401 | 0.548 | 0.507 | 11 |
| Kulgam | 0.304 | 0.530 | 0.497 | 12 |
| Shopian | 0.290 | 0.524 | 0.482 | 13 |
| Doda | 0.341 | 0.534 | 0.472 | 14 |
| Ganderbal | 0.356 | 0.560 | 0.470 | 15 |
| Pulwama | 0.331 | 0.487 | 0.468 | 16 |
| Poonch | 0.321 | 0.485 | 0.461 | 17 |
| Ramban | 0.316 | 0.489 | 0.460 | 18 |
| Badgam | 0.275 | 0.492 | 0.435 | 19 |
| Anantnag | 0.311 | 0.467 | 0.402 | 20 |
| Kupwara | 0.251 | 0.411 | 0.402 | 21 |
| Bandipora | 0.245 | 0.412 | 0.391 | 22 |

*Source: Author's Calculation*

Even at the regional and district levels, the level of financial inclusion varies greatly across the state of Jammu and Kashmir. It has been determined that the districts surrounding Jammu, which are in close proximity to the central position, do well in terms of financial inclusion. Seven of the top ten districts in terms of financial inclusion are located in the Jammu region, two in the Ladakh area, and only one in the Kashmir region.

| **Jammu Region** | | | | | |
|---|---|---|---|---|---|
| | **Districts** | **2011** | **2016** | **2021** | **Overall Ranking** |
| 1 | **Jammu** | 0.947 | 0.949 | 0.918 | 1 |
| 2 | **Samba** | 0.625 | 0.826 | 0.797 | 3 |
| 3 | **Kathua** | 0.508 | 0.667 | 0.622 | 5 |
| 4 | **Reasi** | 0.370 | 0.604 | 0.559 | 7 |
| 5 | **Rajouri** | 0.367 | 0.567 | 0.527 | 8 |
| 6 | **Kishtwar** | 0.347 | 0.575 | 0.525 | 9 |
| 7 | **Udhampur** | 0.436 | 0.589 | 0.511 | 10 |
| 8 | **Doda** | 0.341 | 0.534 | 0.472 | 14 |
| 9 | **Poonch** | 0.321 | 0.485 | 0.461 | 17 |
| 10 | **Ramban** | 0.316 | 0.489 | 0.460 | 18 |

*Source: Author's Calculation*

The districts in the Jammu region which are nearby to the Jammu district are better performing districts in the region while the districts which are far flung and at altitudes like, Ramban, Poonch and Doda are at the bottom.

| **Kashmir Region** | | | | | |
|---|---|---|---|---|---|
| | **Districts** | **IFI 2011** | **IFI 2016** | **IFI 2021** | **Overall Ranking** |
| 1 | **Srinagar** | 0.888 | 0.725 | 0.626 | 4 |
| 2 | **Baramulla** | 0.401 | 0.548 | 0.507 | 11 |
| 3 | **Kulgam** | 0.304 | 0.530 | 0.497 | 12 |
| 4 | **Shopian** | 0.290 | 0.524 | 0.482 | 13 |
| 5 | **Ganderbal** | 0.356 | 0.560 | 0.470 | 15 |
| 6 | **Pulwama** | 0.331 | 0.487 | 0.468 | 16 |

| 7 | **Badgam** | 0.275 | 0.492 | 0.435 | 19 |
|---|---|---|---|---|---|
| 8 | **Anantnag** | 0.311 | 0.467 | 0.402 | 20 |
| 9 | **Kupwara** | 0.251 | 0.411 | 0.402 | 21 |
| 10 | **Bandipora** | 0.245 | 0.412 | 0.391 | 22 |

*Source: Author's Calculation*

In the Kashmir region, only Srinagar district is in the top 10 of the financial inclusion index value, while all other districts score at the bottom. There are a number of potential reasons for this condition, including political instability in the valley, reorganisation of the state, and infrastructure and communication deficiencies, among others. The performance of financial inclusion is significantly poorer in the more distant districts.

| **Ladakh Region** | | | | | |
|---|---|---|---|---|---|
| | **Districts** | **IFI 2011** | **IFI 2016** | **IFI 2021** | **Overall Ranking** |
| 1 | **Leh** | 0.809 | 0.903 | 0.906 | 2 |
| 2 | **Kargil** | 0.482 | 0.567 | 0.563 | 6 |

*Source: Author's Calculation*

In terms of financial inclusion, both districts in the Ladakh region fare well, as measured by the financial inclusion index. Ladakh is the region with the lowest population density and with only 4.5 inhabitants per square kilometer, which also plays a positive role in the better off position of this region. The district of Leh is the only district among the 22 districts that exhibits an improvement in 2021. After the 2019 reorganisation of the state and subsequent problem of covid-19 could be the possible reason that the financial inclusion index has declined in all districts with the exception of Leh.

# 6 Conclusion and Suggestions

This chapter presents the key findings of the study, followed by recommendations for policy implications and the potential for further research, while keeping in mind the performance of the banking sector and its role in promoting financial inclusion generally in India and particularly in Jammu & Kashmir.

The descriptive analysis of the available data and information revealed that a significant improvement has been recorded in the expansion of network of commercial banks in India. But the regional disparities are still there in terms of availability of financial services across different regions and state as well.

From 95,236 in March 2011 to 1,58,792 in March 2022, the outreach of bank branches in India has increased significantly, with a concentration of 33.58 percent in rural areas. The number of bank branches in rural areas has remained constant over time, despite the fact that initiatives like Financial Inclusion Plans (FIPs) and branch expansion strategies are designed to reach out to these communities. A one third of all bank branches in India were located in rural areas in March 2011, and that percentage remained unchanged in March 2022.

In Jammu and Kashmir, J&K bank is the most dominant bank in almost all the major dimensions of financial services and enjoying kind of monopoly in the banking sector of the state. Among the districts and regions as well, there is also a significant disparity in accessibility and availability of financial services.

With almost one-fourth of all bank branches in Jammu & Kashmir as of March 2021, Jammu district has the highest number of bank branches in the entire state. The expansion of bank branches in Jammu and Kashmir's rural areas has improved significantly over time. Rural areas had 45.68 percent of bank branches in March 2011, but by March 2021, that number had increased to 49.02 percent.

Since the introduction of Basic Savings Bank Deposit Accounts (BSBDA) and its connection to the Pradhan Mantri Jan Dhan Yojana, the account opening procedure has substantially improved. Initially, it was based on the idea of no-frills accounts (PMJDY). Since its launch in November 2005, 5.6 crore no frills bank accounts had been created as of March 2010. After reaching 398.1 million in March 2015, it is projected that the number of bank accounts will increase quickly during the following five years. The adoption of PMJDY is solely accountable for bringing unbanked people into the formal banking system; by the end of December 2021, BSBDA had risen to 663.1 million.

It was recommended by the Reserve Bank of India that all domestic scheduled commercial banks (SCBs), to develop board-approved Financial Inclusion Plans (FIPs) as an essential component of their competitive advantage-driven business strategies. FIPs are submitted to the central bank and implemented in three-year intervals.

These plans generally include self-set targets for the following: opening brick-and-mortar branches in rural areas; employing Business Correspondents (BCs); covering unbanked villages through branches/ BCs/ other modes; opening Basic Savings Bank Deposit Accounts (BSBDAs), issuing Kisan Credit Cards (KCC) and General Credit

Cards (GCC) and other products with an aim to reach out to the financially excluded segments of the society.

The Reserve Bank's financial inclusion plan is focused on providing universal access to banking services and enhancing the forms of credit distribution, particularly for the weaker segments of the population. For the purpose of attaining sustainable and scalable financial inclusion, a number of approaches are being employed, including appropriate relaxations of norms, the introduction of new products, and other supplementary measures. Through the employment of business facilitators and Business Correspondents, the Reserve Bank permitted banks to use the services of intermediaries when delivering banking services (BCs). The BC model enables banks to conduct 'cash in-cash out' transactions at a site far closer to rural populations, hence addressing the issue of last mile reach.

To provide doorstep banking services in all unbanked villages across the nation, a phased strategy has been devised. During Phase-I (2010-2013), all unbanked villages with populations exceeding 2,000 were identified and allotted to various banks (public sector banks, private sector banks, and regional rural banks) through State Level Bankers' Committees (SLBCs) for coverage via various modes – Branch or BC or other modes such as ATMs, mobile vans, etc. During the first phase i.e., 2010-13, banking outlets have been established in 74,414 unbanked communities with population greater than 2,000. In addition to 2,493 branches, these newly opened banking locations included 69,589 locations opened via BCs and 2,332 locations created through other channels. Accordingly, in the state of Jammu & Kashmir, 795 villages with a population of over 2,000 have been identified as lacking banking

outlets and have been assigned to various banks for the provision of banking services. In the financial year 2010-11, 417 such villages have been covered, the tally of which further rose to 727 at the end of financial year 2011-12. At the end of 2012-13 all these villages were covered by the assigned bank in the state.

The second phase (2013-2016) was implemented to give banking services to unbanked villages with less than 2,000 population. A total of 4,90,298 unbanked villages have been identified and assigned to various institutions (public sector banks, private sector banks, and regional rural banks) for coverage within a certain time frame. As of March 31, 2017, 96% (472,136 villages) of allotted villages had been covered, including 19,875 villages through brick-and-mortar branches, 431,359 villages via BCs, and 20,905 villages via other modes. Overall, At the inception of Phase-I, in India there were 33,378 branches, 34,174 BCs and 142 other outlets in the villages, which increased significantly (mainly the growth of BCs) in the villages as in December 2021, there were 53249 branches, 18,44,732 BCs and 2542 other banking outlets were recorded in these villages.

In Jammu & Kashmir, a total of 5582 villages with a population of less than 2,000 have been identified, including 1393 identified unbanked villages already incorporated under Financial Inclusion Plan-II for the provision of banking services under the Extension of Swabhimaan programme of the Government of India. There was a cumulative target of 4,077 unbanked villages that needed to be completed by the end of March 2015 however, the banks have covered 4319 villages as of the 31st of March 2015, which is around 106 percent of the cumulative target. The

performance of banks in completing the assigned target is appreciable specifically under these guidelines of RBI.

Brick-and-mortar bank branches are a vital part of expanding banking penetration and financial inclusion, and therefore it has been chosen to focus on the villages with a population of at least 5,000 that lack a branch of a scheduled commercial bank. Therefore, SLBC Convener Banks have been instructed to identify localities with a population greater than 5,000 that lack a branch of a scheduled commercial bank in their respective state. As reported by SLBCs, 8,018 villages were identified and assigned to SCBs (including RRBs) for branch establishment. In accordance with this Roadmap, The Reserve bank of India advised the banks that the opening of physical branches must be completed by March 2017, but the banks failed to meet the deadline. As of September 30, 2018, only 75.51 percent of the country's 8,018 identified villages with a population of more than 5,000 had access to banking services.

In Jammu and Kashmir, J&K SLBC had identified 104 villages with a population greater than 5,000 there is no branch of any scheduled commercial bank and allocated these villages among different banks to cover through brick-and-mortar branches or CBS-enabled banking outlets. At the end of financial year 2020-21, 27 of such villages are still not being covered by the assigned banks.

In addition, the Reserve Bank has taken a number of measures to promote financial inclusion through financial literacy programs in order to extend banking services to those who do not have access to them. In February 2009, the Reserve Bank advised banks to establish Financial Literacy and Credit Counselling Centres (FLCCs) to

provide free financial literacy, education, and counselling. Under the scheme, as of March 2012, 429 FLCCs had been established. Further, because of some shortcoming of the FLCCs, the scheme has been revised, and banks have been instructed to establish Financial Literacy Centres (FLCs). As of the end of March 2013, 718 Financial Literacy Centres (FLCs) had been established in response to the 6 June 2012 revision of the guidelines. There were 1,495 financial literacy centres (FLCs) in the country as of the end of 2021. In order to ensure the continued dissemination of financial education throughout the nation during the pandemic, regional offices of the Reserve Bank implemented virtual financial education programmes and utilised local cable television and community radio to disseminate financial awareness messages. Starting in 2017, the Reserve Bank has designated one week per year as 'Financial Literacy Week' in an effort to raise awareness on a large scale about important issues related to financial inclusion.

In the empirical part of the study, financial inclusion has been measured by using index of financial inclusion developed by Mandira Sarma (Mandira Sarma IFI). This index is being used by considering its multidimensionality and important mathematical properties which make it able to compare financial inclusion level across the economies or region and also over time period.

In this study, IFI is computed for all the 22 districts of Jammu & Kashmir (comprising of 3 regions, namely, Jammu region, Kashmir region and Ladakh region) for the years 2011, 2016 and 2021. The study indicates that over the years, there has been a general improvement in the level of financial inclusion across the districts of Jammu & Kashmir. Among the regions of J&K, Ladakh region (now a distinct UT after the

reorganisation of Jammu & Kashmir) has been performing well in financial inclusion over the years. Both the districts of the region, namely Leh and Kargil, hold ranks of 2 and 6, respectively, as for the year 2021. Most of the districts in the Kashmir region are among the lowest scorers in the IFI for the respective year.

## 6.1 Major Findings of Financial Inclusion Index

- Anantnag, Bandipora, Kupwara, and Budgam are the lowest-ranked districts in the index's penetration dimension, whereas Jammu district is at the top in terms of the penetration of banking services, followed by Samba, Leh, and Kathua.
- There are only two districts of Kashmir region in the top 10 districts of penetration dimension of the index. In comparison to the other two regions, it demonstrates the severity of the unbanked people in the Kashmir region. The prevalence of banking services across all of J&K's districts has significantly increased between the years 2016 and 2021 compared to 2011. This improvement in all of J&K's districts may be attributable to the successful implementation of PMJDY.
- It has also observed that there is a large disparity in the availability of financial services among all the districts and the regions as well. The district of Leh of the Ladakh region is on top in terms of availability, followed by Jammu, Kargil and Srinagar.
- As the main indicator of the availability dimension is number of bank branches with respect to total population, while Leh and Kargil are the least populous districts in J&K, the ratio becomes favourable for these districts.

Jammu and Srinagar districts are the epicentres of the Jammu region and Kashmir region respectively, meanwhile, both these districts have a large urban population (i.e., 50 percent of the total population in Jammu and 98.60 percent of the population in Srinagar as per Census 2011). This might be the prominent reason for the better availability of financial services with respect to other districts.

- ❖ Kupwara, Poonch, and Bandipora, three districts with high altitude topographies and remote locations, come in last on the financial inclusion index's availability dimension.
- ❖ As in 2021, the Leh district is ranked first in the financial inclusion index's usage dimension, followed by Jammu, Srinagar, and Samba. Leh district's use of financial services improved quickly after 2011 whereas Jammu and Srinagar districts gradually became more consistent.
- ❖ Bandipora, Kupwara, and Ramban have lower per capita deposit and credit ratios than other districts in J&K, and these areas are where financial services are used the least. Comparatively less people use financial services in the Kashmir area as a whole than in the other two regions.
- ❖ According to the cumulative result of the financial inclusion index, only one district from the Kashmir Region i.e., Srinagar among the top ten districts in all of Jammu & Kashmir. The performance of the aforementioned area likewise declined with time, and the penetration and availability dimension of the index had a particularly negative impact. The most inclusive districts in Jammu & Kashmir are reportedly Jammu and Leh. Furthermore, Samba

and Kathua, two of Jammu's neighbouring districts, are similarly more inclusive than the far-off districts.

- As of 2021, the districts with the lowest financial inclusion are Bandipora, Kupwara, and Anantnag. The statistics showed a significant geographical variation in financial inclusion, especially between the two major regions namely Jammu and Kashmir.

## 6.2 Suggestions for Policy Implications

Taking into account the significance of financial inclusion in an economy and the evaluation of previous initiatives in this regard, there is still a need to improve the financial inclusion landscape in India, particularly in Jammu and Kashmir. Based on the findings of this study the researcher has put forwarded the following suggestions for the stakeholders to further strengthening the phenomenon being studied:

The J&K bank is the most influential financial institution in Jammu and Kashmir as it holds a share more than 46 percent of all the bank branches in the state. All other private and public sector banks have a very limited presence in the state, with a greater concentration in urban regions. Public sector banks like, SBI and PNB should expand their banking network, especially in remote and locations at high altitudes.

After the implementation of the "Pradhan Mantri Jan Dhan Yojana", the national penetration of financial services is commendable. Instead, the utilisation of financial services remains relatively constant. There is a need for both the government and the banking institutions to work passionately to offer desired and affordable financial products that will enhance the use of financial services by the general public. Access to suitable and affordable financial services is not the sole factor contributing to the

issue, a significant proportion of banked population are nonetheless making very little use of the services on offer and are characterized as underbanked. There is also need to inculcate the habit of better usage of available financial services.

J&K Bank was instrumental in the implementation of the “Pradhan Mantri Jan Dhan Yojana” in Jammu and Kashmir. The other large banks should likewise enhance the scheme's coverage. There is a great deal of work to be done on schemes other than account opening, such as giving debit card facilities and social security benefits. The financial sector should expedite the distribution of these surplus advantages to the state's populace.

Financial literacy is one of the most essential components of the financial inclusion goal. Despite several government endeavours to make financial literacy universal throughout the nation, there is still a great deal of emphasis required on this component. In Jammu and Kashmir, the SLBC has performed many financial literacy-related activities over the years, however the concentration of these activities is limited to urban regions, whereas in rural areas, financial literacy-related activities are held extremely infrequently.

In Jammu and Kashmir, the SLBC should establish a special committee to assess financial inclusion programmes, particularly in districts that are underperforming in their coverage of the financially excluded segment of the population. As the performance of the Kashmir area falls short of expectations, there should be an institutional intervention to improve its conditions and reduce its obstacles.

The trend of digital finance become phenomenal and top policy priority across the world. In India, it played a significant role in easing down the accessibility and usage of financial services. Likewise, there is need to develop a better infrastructural and communication setup of digital financing in Jammu and Kashmir.

## 6.3 Scope for Future Research

This study has addressed the majority of the significant aspects of research on this topic. Since, it is not possible to include all ideas and methodologies in a single study, we have highlighted several areas of the subject where additional research can be conducted in the future.

Due to the absence of relevant data, we enlisted only commercial banks and their involvement in fostering financial inclusion in the state of Jammu and Kashmir. Using primary database sources, it is feasible to incorporate other relevant financial companies in the investigation in future.

Some of the important dimensions of financial inclusion number of ATMs and business correspondents are not included. Including these dimensions in the future researches will further clear the picture of status of financial inclusion.

It is necessary to analyse the amount of financial exclusion (inclusion) among various social groups and between the genders. Future researches by utilising these factors will further reveal the precise nature of financial inclusion.

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