

Financial Inclusion: An Empirical Study of Households Availing Banking Services with Special Reference to Tumkur District

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<https://doi.org/10.55041/ijstmt.v2i3.316>

Cite this Article: S, R. N. H. (2026). Financial Inclusion: An Empirical Study of Households Availing Banking Services with Special Reference to Tumkur District. *International Journal of Science, Strategic Management and Technology*, 02(03). <https://doi.org/10.55041/ijstmt.v2i3.316>

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Abstract:

Even after the seven decades of independence of India, 14.48 crores household out of 24.67 crores have access to basic banking services and only 54.46% of rural households have access to banking (Census 2011). In 2011, 2.5 billion population were unbanked and in 2014 it has been reduced to 2 billion (World Bank Findex 2014). CRISIL Inclusix report says only 50.1(for 100) population has been under the fold of financial inclusion. According to 2011 Census 58.7% of households are only availing the banking services. This paper tries to understand the concept of financial inclusion in different perspective. This paper analyzed the status of financial inclusion in India and its periodical growth. The pattern and extent of banking services availed by households of Tumkur district, even at sub-district level have studied in this paper. Study has shown that still there is a large portion of population financially excluded and efforts are required by Governments, RBI, NGOs, SHGs, Micro Finance Institutions and other organizations to reach unbanked people and to create financial awareness among people to avail formal banking and financial services.

Keywords: Financial Inclusion, Households, Financial Literacy, Financial Exclusion

Even after the seven decades of independence of India, 14.48 crores household out of 24.67 crores have access to basic banking services and only 54.46% of rural households have access to banking (Census 2011). In 2011, 2.5 billion population were unbanked and in 2014 it has been reduced to 2 billion (World Bank Findex 2014). CRISIL Inclusix report says only 50.1(for 100) population has been under the fold of financial inclusion. According to 2011 Census 58.7% of households are only availing the banking services. A large amount of financial exclusion is prevailing in the economy. A large amount of population is still unbanked. They are not getting at least basic financial services. If people deprived from the financial services in a country, it will hinder the economic development of the nation. For sustainable development and inclusive growth financial inclusion is a pivotal tool.

Objectives:

- To understand the concept of financial inclusion
- To know the extent of financial inclusion in India.
- To study extent of households availing banking services in Tumkur and in its sub-districts.

Review of Literature:

Sanjana Sathiyam and Prasant Kumar Panda (2016) analyzed the pattern, progress and determinants of financial inclusion of twenty eight states during the post reform period of India. They studied the pattern of households having bank accounts and observed that there is significant improvement in accessing banking services. This paper concluded that increasing bank branches has a significant impact on financial inclusion.

Sulagana Das & B.C.M Patnaik (2015) in their study concentrated on the status of micro finance in rural banks of eastern India. This paper made comparative analysis of self-help groups, their performance, and schemes for SHGs and reason for the deviations. This study found that outstanding loan amount percentage was not satisfactory and only few schemes are effectively reaching the SHGs. They suggested extending more credit to poor and MFIs should come forward to help poor to set up their own business.

Gulshan Kumar & Manoj Upreti (2015) explained the current status of financial inclusion in India. It discussed the initiatives taken by RBI and Government of India. It concluded that financial inclusion is a new indicator of economic growth of the country. It is feasible to identify poor and provide financial services to them in order to increase their standard of living.

Challa Radhakumari and M.R. Geetha Bala (2013) studied whether present route of financial inclusion matching with the expectations of policy makers. This study highlighted the implementation of policy to achieve financial inclusion and the respondents were happy about the efforts of banks and government for inclusive banking. Respondents of rural area expressed their wish to have banking services at their villages.

Dr. Anurag B. Singh and Priyanka Tandon (2012) made analysis of financial inclusion in India. They expressed their concern that, more than half of the poor are excluded from basic banking and financial services. This paper discussed about encountering the disparity between people through financial inclusion by using micro finance models that will lead to the economic development of the country.

Understanding Financial Inclusion:

Financial inclusion can be defined as an easy access to formal financial services to the people. It is a process of providing timely access to financial services and credit to the vulnerable groups. It is a process of ensuring bank accounts to each household and offering their inclusion in the banking system. Delivering banking services at an affordable cost to the vast section of disadvantaged and low income groups without discrimination is also a perspective of financial inclusion. It can be broadly defined as a universal access to wide range of financial services at a reasonable cost. Financial empowerment of people can be achieved by providing access to various financial services to people. Financial inclusion is considered as a major tool for providing financial services and it can promote inclusive growth.

“Financial inclusion may be defined 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.”

- Report Committee on Financial Inclusion (2008).

“Financial inclusion include not only banking products but also other financial services such as insurance and equity products”

- Raghuram Rajan Committee’s definition of Financial Inclusion

At present in India access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. The various financial services include credit, savings, insurance and payments and remittance facilities. The

GOI's objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.

Table-1: No. of households availing banking services in

| Census 2001 | | | | Census 2011 | | |
|--------------|------------------|-------------------------------------|------|-----------------|-------------------------------------|------|
| Households | Total No. of HH* | No. of HH availing banking services | % | Total No. of HH | No. of HH availing banking services | % |
| Total | 19,19,63,935 | 6,82,30,642 | 35.5 | 24,66,92,667 | 14,48,14,788 | 58.7 |
| Rural | 13,82,71,559 | 4,16,39,949 | 30.1 | 16,78,26,730 | 9,13,69,805 | 54.4 |
| Urban | 5,36,92,276 | 2,55,90,693 | 49.5 | 7,88,65,937 | 5,34,44,983 | 67.8 |

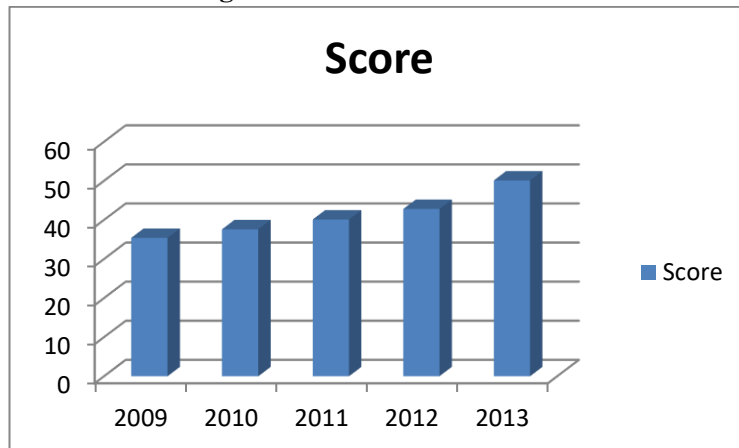
Source: Census 2001 and 2011, compiled by the author

*HH-Households

The above table shows 58.7% of the population is availing financial services in India. Significant proportion of households in rural area is still out of formal financial track. There is a considerable growth in urban HH using banking services. As compared with 2001 Census, there is a notable improvement in people availing banking services. Overall percentage has been increased from 35.5% to 58.7%. There is an enhancement of users of banking services in rural as well as urban areas. It has been increased from 30.1% to 54.4% in rural and 49.5% to 67.8% in urban area.

CRISIL is also measuring the financial inclusion in India. CRISIL is measuring the financial on the basis of branch penetration, deposit and credit penetration. In 2009 CRISIL Inclusix was only 35.4. There is a gradual increase in Inclusix, in 2010, 37.6; in 2011 it was increased to 40.1, 2012, 42.8 and in 2013, 50.1 crossed half way mark. But still a half of the population is financially excluded.

Chart-1: Showing the scores of CRISIL Inclusix



Source: CRISIL Inclusix

However, despite all the efforts made by the Government, Reserve Bank of India and the banking system in the past, some recent studies carried out by different agencies indicate that large segments of the society still remain financially excluded. Some of the studies indicated that nearly 50% of rural households still remain financially excluded, meaning the formal banking institutions.

According to Boston Consultancy Group report, more than 20 crores people gained access to financial services recently (Economic Times. August 2016). Finance minister of India opined that the educational institutions should create awareness about financial inclusion (Economic Times. August 2016), Prime Minister Jan Dhan Yojana is able to ensure

bank accounts to people. Despite the efforts the government and RBI still people are unbanked. As financial inclusion boosts the economic development, Financial Exclusion can create Social Exclusion in the country.

Financial Inclusion in Tumkur District: An Analysis

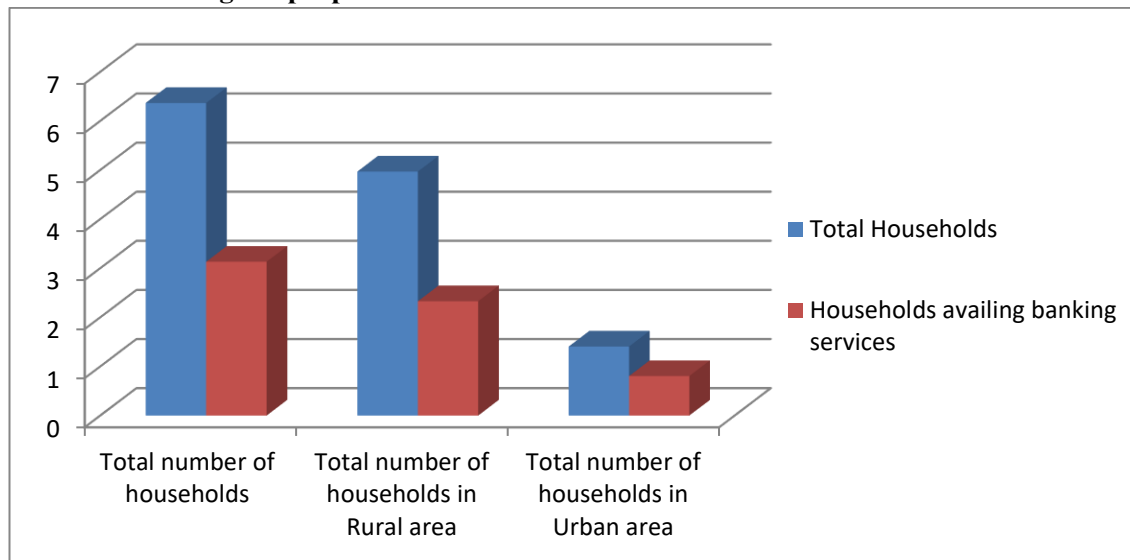
Tumkur district is comprises of ten Sub-Districts. Each sub-district is geographically and climatically different. Major portion of the population are living in rural areas. Many sub-districts are affected by chronic drought from many years. There is no proper irrigation to all sub-districts. Per capita income is also very low. Failure of crops, former suicide cases is common tendency. People are financially excluded and more than half of the population deprived from banking services.

Table 2: Extent of Financial Inclusion in Tumkur District

| Households | Total Households | Households availing banking services | Percentage of Financial Inclusion |
|--|------------------|--------------------------------------|-----------------------------------|
| Total number of households | 6,36,394 | 3,13,186 | 49.212 |
| Total number of households in Rural area | 4,96,885 | 2,32,783 | 46.848 |
| Total number of households in Urban area | 1,40,509 | 80,403 | 57.222 |

Source: Census 2011, compiled by the author

Chart-2: Showing the proportion of financial inclusion in Tumkur district



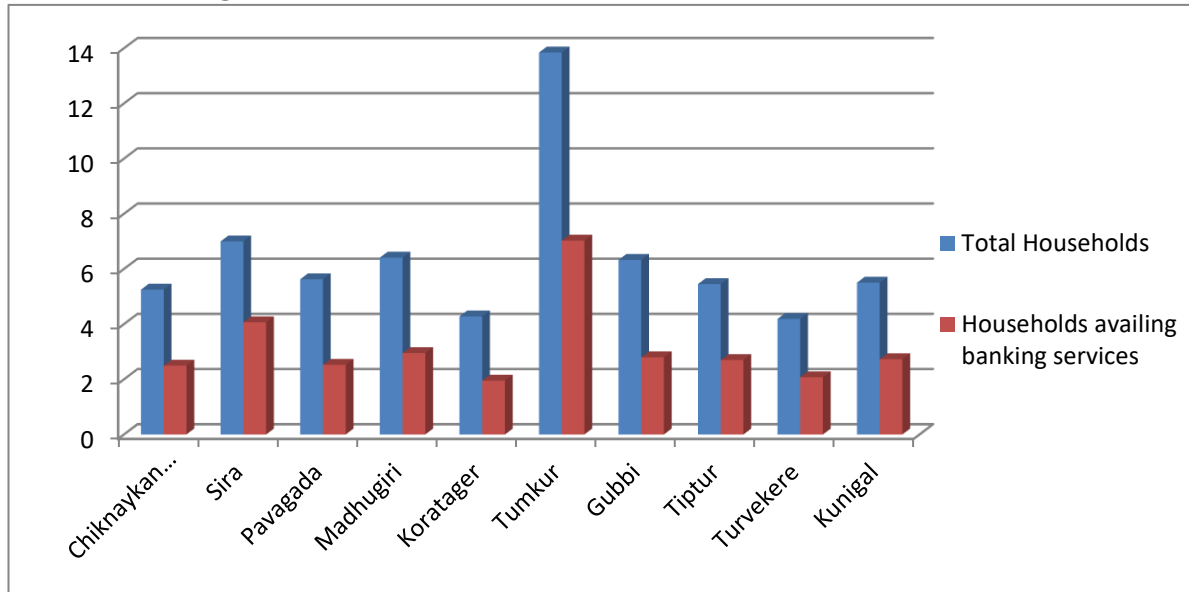
Government is claiming that they are able to achieve comprehensive financial inclusion in Karnataka. SHGs and Cooperative societies driven districts like Tumkur have not archived at least 50% of financial inclusion. More than half of the population deprived from basic banking services. Overall financial inclusion rate is only 49.212%. Compared to rural households, urban households are getting banking facilities. Even after bank branch penetration strategies of RBI, Regional Rural Banks, Co-operative societies, Micro Finance Institutions and SHGs rural households are not included in the formal stream of financial services. Financial inclusion proportion in rural households is 46.848%, less than the overall inclusion percentage of the district

Table 3: Extent of Financial Inclusion at Sub-District level (Including Rural and Urban areas)

| Sub-District Name | Total Households | Households availing banking services | Percentage of Financial Inclusion |
|-------------------------|------------------|--------------------------------------|-----------------------------------|
| Chiknayakanhalli | 52,517 | 24,961 | 47.529 |
| Rural | 43,337 | 19,910 | 45.9 |
| Urban | 9,180 | 5,051 | 55.02 |
| Sira | 69,991 | 40,681 | 58.123 |
| Rural | 57,703 | 34,177 | 59.229 |
| Urban | 12,288 | 6,504 | 52.929 |
| Pavagada | 56,269 | 25,246 | 44.866 |
| Rural | 50,002 | 22,028 | 44.054 |
| Urban | 6,267 | 3,198 | 51.029 |
| Madhugiri | 64,103 | 29,505 | 46.027 |
| Rural | 57,173 | 25,948 | 45.385 |
| Urban | 6,930 | 3,557 | 51.327 |
| Koratager | 40,281 | 19,506 | 48.424 |
| Rural | 36,619 | 17,249 | 47.103 |
| Urban | 3,662 | 2,257 | 61.632 |
| Tumkur | 1,38,464 | 70,270 | 50.749 |
| Rural | 67,033 | 28,386 | 42.346 |
| Urban | 71,431 | 41,884 | 58.635 |
| Gubbi | 63,298 | 27,967 | 44.183 |
| Rural | 57,763 | 25,543 | 44.220 |
| Urban | 4,535 | 2,424 | 53.450 |
| Tiptur | 54,540 | 27,010 | 49.523 |
| Rural | 40,242 | 18,730 | 46.543 |
| Urban | 14,298 | 8,280 | 57.910 |
| Turvekere | 41,896 | 20,749 | 49.525 |
| Rural | 37,717 | 17,986 | 47.686 |
| Urban | 4,179 | 2,763 | 66.116 |
| Kunigal | 55,035 | 27,291 | 49.588 |
| Rural | 47,296 | 22,806 | 48.219 |
| Urban | 7,739 | 4,485 | 57.953 |

Source: Census 2011, compiled by the author

Chart-3: Showing the extent of Financial Inclusion in Sub-Districts of Tumkur



Out of ten sub-districts of Tumkur, only two sub-districts (Sira & Tumkur) crossed 50% mark. All other sub-districts are within the scale of 40-50%. Financial inclusion is very poor in all sub districts. Gubbi and Pavagada are in the least in inclusion. In rural and urban division, in all sub-districts urban households are greater availing banking services compared to rural households. Again here rural households are not getting financial services. Around 61% of urban households are using banking services in Koratgere stands first and Pavagada will be at least. In rural financial inclusion of sub-districts, Sira at the top and Tumkur at the bottom.

Conclusion:

Large portion of people are deprived from financial services. Many of them still do not have bank accounts. Having an account is not financial inclusion. Rural households are out of the fold of banking services. Urban households are also struggling to join the track of formal banking. Only through proper financial services, people can avail the benefits of Government. Now subsidies are also linked to bank accounts. Having a bank account is need of the hour. To reach lower and middle income people micro finance products are most suitable. Programs like Prime Minister Jan Dhan Yojana are a major milestone in this process. Government should also take actions to increase financial literacy among people. Efforts are required by Governments, RBI, NGOs, SHGs, Micro Finance Institutions and other organizations to reach unbanked people and to create financial awareness among people to avail formal banking and financial services.

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