

**ROLE OF LEAD BANK IN FINANCIAL INCLUSION A CASE STUDY OF H D KOTE TALUK**

**Rupa.K.N, Teacher Fellow**

**DOS in Economics and Co -Operation**

**ManasaGangothri, Mysuru**

**Dr Uma H. R, Professor of Economics**

**Sir M.V. P G centre, Mandya.**

**Madhu G. R, Senior Research Fellow**

**DOS in Economics and Co –Operation, ManasaGangothri, Mysuru**

**Abstract**

Lead Bank is a unique model formulated by the Reserve Bank of India to reduce regional and sectoral imbalances existing in the economy. Even with remarkable progress after Nationalization of commercial banks, a wide gap had existed between demand and supply of credit. To have an “area approach” for targeted and focused banking, the Lead Bank scheme was introduced by Reserve Bank of India in December 1969. The main objective of the scheme is to coordinate the activities of banks and other developmental agencies to enhance banking facility to rural areas and priority sectors. The present study intends to review the role of Lead Bank both at State level and district level. It attempts to assess the performance of Lead bank through major landmarks like branch penetration, Geographic branch penetration and Demographic branch penetration and population per office. ANOVA Test is used to test significance of difference in Geographic branch penetration and Demographic branch penetration at National, state and distinct level. The comparative analysis of growth of these parameters helps to establish the role of Lead Bank in financial inclusion. The study also intends to test the efficacy of financial inclusion on financially included people by collecting primary data. Chi-square test is used to test the impact of financial inclusion on social and economic condition of BSBD account holders which shows significant change in Economic and social condition of Basic Savings Deposit account holders after financial inclusion. Therefore, the study asserted the effective role of Lead Bank in implementation of financial inclusion efforts. With that, considering the positive changes on social and economic condition of new account holders, Government of India and Reserve Bank of India may take further initiatives to boost financial inclusion.

**Key Words:** *Basic Savings Bank Deposit account holders, Lead Bank scheme, Financial Inclusion, Reserve Bank of India.*

## Introduction

Lead Bank is an unique model formulated by the RBI to reduce regional and sectoral imbalances existing in the economy. Even with remarkable progress after Nationalization of commercial banks, a wide gap had existed between demand and supply of credit. The average population served by a commercial bank office in India was as high as 73,000 and it was found that only 5000 of the total number of villages (5, 64,000) were served by commercial banks as at the end of June 1967. Out of the institutional credit to agriculture sector at 39 per cent of total credit, the share of commercial banks was negligible at one per cent. The above situation necessitated commercial banks to join the force. Lead bank scheme was introduced by Reserve Bank of India in 1969 in pursuance of the recommendations of the Study Group headed by Prof. D. R. Gadgil (Gadgil Study Group) on the organizational framework for implementation of the social objectives and the Committee of Bankers on Branch Expansion Programme of public sector banks Chaired by Shri F. K. F. Nariman to have an "area approach" for targeted and focused banking. The main objective of the scheme is to coordinate the activities of banks and other developmental agencies through various fora in order to enhance banking facility to rural areas and priority sectors.

To cope with the changes in financial sector, a high level review committee was appointed in 2009 and it recommended that the scheme need to continue as it is useful to increase rural penetration of banking. Initially the Lead Bank Scheme (LBS) was applicable to all districts in the country except districts in metropolitan areas, later by recognizing the need to extend the scheme to metropolitan areas; all the districts in metropolitan areas were brought under the LBS. As on June 30, 2014, 25 public sector banks and one private sector bank have been assigned lead bank responsibility in 671 districts of the country. Expansion of bank branches, boosting the mobilization of deposits, priority sectors lending, acting as a forum of communication and coordination among concerned State Governments, banks and other financial institutions, augmenting financial inclusion measures, providing financial and credit counseling, provision of 'credit plus' services, skill development, building infrastructure for greater physical and digital connectivity are the prime objectives of Lead Bank System.

Lead Bank scheme is operating at state, district and block level. The performance of banks in implementing district credit plan and Potential Linked Credit Plan is reviewed in the various fora created under the lead bank at all the three levels. i.e Block Level Bankers' Committee (BLBC) at Block Level, District Consultative Committee (DCC) & District Level Review Committee (DLRC) at district level and State Level Bankers' Committee (SLBC) at state level.

## Research Gap

The review of previous studies indicates Lead Bank is supposed to play significant role to achieve financial inclusion. Financial inclusion is a tool to reduce poverty and income inequality. This also helps for financial sector development and economic growth. This is the new area of research interest. Many studies on bank led financial inclusion model are available. But the present study intends to assess the role of Lead Bank to achieve financial inclusion. To test the efficacy of financial inclusion, the study attempts to assess the changes in economic and social condition of financially included BSBD account holders

## Objectives of the study

1. To study and compare the growth of financial inclusion under Lead Bank Scheme.
2. To assess the impact of financial inclusion on economic and social condition of BSBD account holders.

## Methodology

The study is based on both primary and secondary data. The secondary data was collected from various Reports of Reserve Bank of India (RBI), Karnataka Economic Survey, Minutes of State Level Bankers Committee and other sources. To test whether significant difference exist between Geographic branch penetration and Demographic branch penetration of Banking at National, State and District level and to assess the role of Lead Bank Analysis of Variance (ANOVA) is used.

To assess the changes in economic and social condition after financial inclusion on BSBD account holders, 100 samples were selected at random in H D Kote taluk of Mysuru district in Karnataka. Data were collected by administering a structured questionnaire to the selected respondents to elicit the required information. Since the primary data were categorical in nature, Chi- Square test was employed to draw suitable inference.

## Hypotheses of the study

The study proposes to test two hypotheses.

1)  $H_0$ : There is no positive growth of financial inclusion through banking system under Lead Bank Scheme

$H_1$ : There is positive growth financial inclusion through banking system under Lead Bank Scheme

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

$H_1$ : There is positive impact on economic and social condition of BSBD account holders after financial inclusion

## Results and Discussion

### Financial Inclusion under Lead Bank Scheme

Financial inclusion intends to reach hitherto excluded people through banks. More penetration indicates more reach. The information of All India level, Karnataka State level and Mysuru district level is used to draw inferences. Here total numbers of branches, geographic branch penetration, demographic branch penetration and Population per office were used to check the comparative position on financial inclusion. Geographic branch penetration refers to number of branches per 1000 square kilometer and demographic branch penetration is the number of bank branches per 1, 00,000 persons. The hypothesis testing is based on table I, Table II, table III and table IV.

**Table I: Penetration of Banking at National, State and District level**

Year	Total number of branches	Geographic branch penetration	Demographic branch penetration	Population per Office
<b>Penetration of Banking at National Level</b>				
2006	69866	20.79	6.24	15763
2007	72261	21.25	6.35	15491
2008	76256	21.98	6.59	15156
2009	80217	23.19	6.83	14634

2010	85518	24.40	7.17	13939
2011	91156	26.01	7.53	13276
2012	98597	27.73	8.02	12458
2013	105753	29.99	8.48	11786
<b>Penetration of Banking at State Level</b>				
2006	4962	25.87	8.70	11481
2007	5099	26.58	8.81	11345
2008	5280	27.52	8.98	11124
2009	5504	28.69	9.22	10836
2010	6975	36.36	11.51	8682
2011	7268	37.95	11.90	8406
2012	7885	41.11	12.69	7748
2013	8430	43.95	13.36	7481
<b>Penetration of Banking at District Level</b>				
2006	280	41.38	9.92	10075
2007	301	44.50	10.52	10212
2008	311	45.98	10.72	9319
2009	313	46.27	10.65	9386
2010	325	48.04	10.91	9163
2011	351	51.89	11.69	8550
2012	361	53.37	11.86	8426
2013	419	61.94	13.58	7359

**Source :RBI ,Statistical Tables Relating to banks in India  
Karnataka Economic Survey –Various Issues  
District Credit Plan by Lead Bank of Mysuru District**

It can be observed from the table-I that expansion of bank branches at all the three levels enhanced the access to banking. **Population per Office** (in Thousands) indicates the number of people covered under each bank branch. According to the table it can be observed that population per office is decreasing over the years which indicate improvement in bank reach. In 1947 one bank office used to serve 1, 36,000 people. In 1969 it was 64000 people. In 2013 Population per Office at National

level is 11786. At Karnataka state level that is 7481 and Mysuru district level 7359. Here Mysuru district surpassed state and national level in this criterion. This indicates Lead Banks both at state and district level play promotional role to enhance banking reach compared to National level.

The improvement in geographical branch penetration indicates availability of more bank offices which is also an indicator of economic development. Higher geographic branch penetrations indicate smaller distance and thus easier geographic access of the bank branches to common people. At the same time higher demographic branch penetrations indicate easier access because of fewer potential clients per outlet and vice versa.

The present study intended to test Geographic branch penetration and Demographic Branch Penetration which are also indicators of financial inclusion at National, state and district levels to know whether any significant differences are there among them. The result is presented in table -II and Table- III. .

**Table II: Descriptive analysis of Geographic and Demographic branch penetration**

Penetration	N		Mean	Std. Deviation	Std. Error
Geographic branch penetration	8	Nation	24.417500	3.2776679	1.1588306
	8	state	33.503750	7.1723316	2.5358022
	8	District	49.171250	6.4416866	2.2774802
Total	24		35.697500	11.8587859	2.4206645
Demographic branch penetration	8	Nation	7.151250	.8066410	.2851906
	8	state	10.646250	1.9209219	.6791485
	8	District	11.231250	1.1370443	.4020059
Total	24		9.676250	2.2584216	.4609984

Table II shows the descriptive analysis regarding geographic branch penetration and demographic branch penetration at National, state and district level in absolute terms. It appears that both geographic and demographic branch penetration is high in Mysuru district compared to both State and National level. However in order to find the significant difference the ANOVA test has been conducted.

**Table III: ANOVA Test**

Penetration		Sum of Squares	df	Mean Square	F	Sig
Geographic branch penetration	Between Groups	2508.743	2	1254.372	36.295**	.000
	Within Groups	725.765	21	34.560		
	Total	3234.508	23			
Demographic branch penetration	Between Groups	77.876	2	38.938	20.736**	.000
	Within Groups	39.434	21	1.878		
	Total	117.311	23			

Sig: \*\*Significant at one percent level.

It has been found from the ANOVA test that there is significant difference among the groups in terms of both geographic and demographic branch penetration. However the difference between groups is not specifically identified from the ANOVA test. Hence the LSD multiple comparison test has been conducted.

Table IV: Multiple Comparisons-LSD Test

Geographic branch penetration					95% Confidence Interval	
(I)Area	(J) Area	Mean Difference (I-J)	Std. Error	Sig.	Lower Bound	Upper Bound
National	State	-9.0862500*	2.9393987	.006	-15.199064	-2.973436*
	District	-24.7537500*	2.9393987	.000	-30.866564	-18.640936*
state	National	9.0862500*	2.9393987	.006	2.973436	15.199064*
	District	-15.6675000*	2.9393987	.000	-21.780314	-9.554686*
District	National	24.7537500*	2.9393987	.000	18.640936	30.866564*
	State	15.6675000*	2.9393987	.000	9.554686	21.780314*
Demographic branch penetration						
National	State	-3.4950000*	.6851691	.000	-4.919887	-2.070113*
	District	-4.0800000*	.6851691	.000	-5.504887	-2.655113*
state	National	3.4950000*	.6851691	.000	2.070113	4.919887*
	District	-.5850000	.6851691	.403	-2.009887	.839887
District	National	4.0800000*	.6851691	.000	2.655113	5.504887*
	State	.5850000	.6851691	.403	-.839887	2.009887

\*. The mean difference is significant at the 0.05 level.

The Post Hoc test conducted to know the significant difference between three different levels i.e., National, state and district levels in both geographic and demographic branch penetration.

Regarding geographic penetration the test show significant result. That can be interpreted as more geographic branch penetration can be seen in Karnataka State compared to National level and there is more geographic branch penetration in Mysuru district compared to state level. Therefore statistically geographic penetration is significantly high in Mysuru district compared to both National and State level.

Regarding Demographic penetration the test result of comparative position show significant result related to National, state and district level. It can be interpreted that more demographic penetration found in Karnataka state compared to India level and there is more demographic penetration in Mysuru district compared to National level. But in case of Karnataka state and mysuru district there is no significant difference in demographic penetration. It may be noted that Lead Bank is operating both at State and District level. Compared to National level demographic penetration is more in both state and district level.

Based on the results of the above tables, the study can conclude that Lead bank is playing promotional role both at Karnataka state level and Mysuru district level as both geographic and demographic branch penetration is more compared to National level. At the same time geographic branch penetration in Mysuru district is more compared to both state and National level. On the basis of all these discussions the null hypothesis that there is no positive growth of financial inclusion through banking system under Lead Bank Scheme can be rejected

### Impact of Financial Inclusion on Social and Economic condition of BSBD Account holders

H D Kote is the most backward taluk of Mysuru district. Socio-Economic backwardness was the reason for hitherto financial exclusion of the respondents. Through financial inclusion attempts were made to inculcate banking habit among them as it is expected to bring positive change in their living and improve their social well being. Further, the inclusion to formal banking sector itself boosts the confidence level of new account holders. Secured saving facility inculcates saving habit among the account holders. With that they can also avail credit facility according to the requirement, which may improve their consumption level and increase the opportunities to carry out petty businesses. Saving habit and credit facility improves the economic condition of new account holders. Data on changes after introduction of financial inclusion among the sample respondents are presented in Tables III and IV.

**Socio-Economic condition of BSBD account holders of H D Kote taluk:** One of the objectives of the study is to assess the impact of financial inclusion on social and economic condition of BSBD account holders in the study area. Therefore, in the following paragraphs, the prevailing social and economic conditions of the selected sample households are presented.

Among 100 sample respondents, 58 per cent were male and 42 per cent were female. Among them 83 percent are SC and ST categories, 6 percent belong to general category, followed by 36 percent of OBC With regard to educational status of the sample respondents, 44 percent were illiterates; 14 percent were primary education; and only one person was had secondary level of education. Further, majority of them were farmers (91 percent). Among the farmers, about 63 percent were marginal farmers. As source of income is meager, 94 percent of them work as daily wage earners. 85 percent of them earn less than ` 5000 per month. As far as savings are concerned, hardly 98 percent of them had save less than ` 2000 per month and 98 percent of them are Below Poverty Line(BPL) card holders. These findings in the study area have clearly shown that the sample respondents were not only economically poor, but also were socially backward. Perhaps, due to their disadvantaged position, they are totally excluded to get the benefits of banking.

**Table V: Impact on Economic condition after opening account**

Status	Physical assets	Owning of land	Live Stock	Electronic goods	Vehicles
Affirmative	68	51	56	65	58
Non-Affirmative	32	48	44	35	42

**Chi-Sq = 22.947\*\*, DF = 4, P-Value = 0.000**

From the table it is clear that respondents opine affirmatively about the improvement of their economic condition. Among the sample respondents, 68 have informed that their physical assets have increased after financial inclusion; while 32 had no improvements in their physical assets. With regard to owing of land, 51 were affirmative and rest of them were non-affirmative. It is known that the major source of earnings in rural areas was on account of livestock in addition to farming. The study reported that 56 have opined in favour of financial inclusion to have increase in earnings through livestock and 44 were non-affirmative. It is also observed that 65 percent of them were able to purchase electronic good like TV, cell-phone etc., after financial inclusion. Similarly, 58 persons had purchased Bi-cycles and two-wheeler motor vehicles for their mobility. The chi-square test further revealed that there is significant impact on the financial inclusion among the respondents.

**Table VI: Impact on Social condition after opening account**

	Education Expenditure	Health access	Confidence level	Skills and Empowerment	Risk management	Nutritional status
Affirmative	66	78	84	21	51	66
Non-Affirmative	34	22	16	79	49	34

**Chi-Sq = 126.371\*\*, DF = 5, P-Value = 0.000**

Like economic changes it is intended that financial inclusion will bring changes in social condition of BSBD account holder respondents. The study results in the table-III revealed that among 100 respondents in the study area, 66 responded that the expenditure on education of their children was met adequately after financial inclusion. However, on the issue of access to health related issues; higher percentage of them had affirmative opinion (78 %), while 22 % were in non-affirmative. One of the important reasons for introduction of such financial inclusion in the rural and semi-urban areas is to create confidence and increase their skill formation in decision making and empowerment. The study showed an increased confidence level of 84% among respondents. But regarding skill formation and empowerment through skill formation, only 21 percent were affirmative among the sample respondents. According to them, financial inclusion does not help them for skill development. This may be the case because financial inclusion is not the only factor but other factors like related education; intensive training will affect the skill development. Further, half of the respondents opined that their level of risk management (51%) capacity has been increased after inclusion. Another important finding is that their nutritional status had increased (66 %). The empirical findings clearly established the fact that there is a positive change on the social conditions of respondents after financial inclusion. The chi-square test has shown highly significant at 1 % level of significance. This has disproved the hypothesis that there is no impact on social changes in the sample respondents in the study area.

#### **Conclusion and Policy implication:**

Financial Inclusion is an attempt to include the marginalized into the mainstream economy. This helps to reduce socio-economic problems like income inequality, poverty, unemployment and exploitation. The Government policy on social justice is not only providing equality in social and economic front, but also empower the rural households, particularly for the marginalized groups, to bring them in the main stream of the economy. In this endeavor, several attempts are being made to connect the rural people to access the financial inclusion and increase their participatory level. With this view, the present research investigation conducted at the cross-sectional level in Mysore taluk of Mysore district, Karnataka has provided clear evidence that there is a positive impact on social and economic of rural households under the financial inclusion. Therefore, considering the positive change at the gross root levels of rural households on account of financial inclusion, Government of India and RBI may take further initiative to implement Jan-Dhan Yojana mission with efficiently and effectively to reach the unreached.



---

**References**

- 1) Atul Raman(2012) *IOSR Journal of Business and Management (IOSRJBM)* ISSN: 2278- 487X Volume 1, Issue 3 (May-June 2012), PP 25-29 [www.iosrjournals.org](http://www.iosrjournals.org)
- 2) Chattopadhyay, Sadhan Kumar (2011): *Financial Inclusion in India: A case-study of West Bengal*. Published in: Reserve Bank of India Working Paper , Vol. July 2, No. WPS(DEPR): 8/2011 <http://mpira.ub.uni-muenchen.de/34269/>
- 3) Deepali Pant Joshi(2014) "*Role of Banking in Development - Development Initiatives by RBI -Lead Bank Scheme*
- 4) Gandhi M.M(2013) *Financial Inclusion in India Issues and Challenges* <http://www.viewofspace.org/june2013/4.pdf>
- 5) Gupta, R. N. (2012). *Making Inclusive Growth a Reality: Lessons from India*. Retrieved from <http://www.europeanbusinessreview.com>
- 6) Harun R Khan(2012) *Issues and Challenges in Financial Inclusion: Policies, Partnerships, Processes & Products* [http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/ISCHF230712\\_F.pdf](http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/ISCHF230712_F.pdf)
- 7) Radhika Dixit and Munmun Ghosh(2013) Financial Inclusion for Inclusive Gerowth of India-A study of Indian States *International Journal of Business Management &Research (IJBMR)* ISSN: 2249-6920 Vol. 3, Issue 1, Mar 2013, 147-156
- 8) Ramesh S Arunachalam (2008), "*Scoping Paper on Financial Inclusion*", UNDP.
- 9) Reserve Bank of India (2009) Report of the High Level Committee to review Lead Bank Scheme <http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/LBSR240809.pdf>
- 10) Reserve Bank of India(2014)Master–Circular Lead Bank Scheme[http://slbcchhattisgarh.com/rbicircular/12\\_7\\_2014/Master%20Circular%20Lead%20Bank%20Scheme%20July%201-2014.pdf](http://slbcchhattisgarh.com/rbicircular/12_7_2014/Master%20Circular%20Lead%20Bank%20Scheme%20July%201-2014.pdf)
- 11) Surendran Aand Dr.Manoharan B(2010) *Performance of Lead Bank scheme in Virudhanagar District of Tamil Nadu* [http://www.abhinavjournal.com/images/Commerce\\_&\\_Management/Jun12/9.pdf](http://www.abhinavjournal.com/images/Commerce_&_Management/Jun12/9.pdf)
- 12) Swapan Kumar Roy(2012) Financial Inclusion In India: An Overview, *Asian Journal of Multidimensional Research* Vol.1 Issue 5, October 2012, ISSN 2278-4853 A Publication of TRANS Asian Research Journals <http://www.tarj.in>
- 13) Vijay Kelkar (2010) Financial Inclusion for Inclusive Growth *ASCI Journal of Management* 39(1): 55–68 Copyright © 2010 Administrative Staff College of India