



# Report on State of Financial Inclusion in Kerala

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# Acknowledgement



*MIX would like to thank National Bank for Agriculture and Rural Development (NABARD), Kerala for conducting two stakeholder workshops in Kerala which helped different entities involved in financial inclusion assemble at one platform and exchange their thoughts. It helped MIX in gaining cognizance of the unique way in which Kerala tries to achieve financial inclusion.*

# Executive Summary

In India, just over half of all adults have access to a bank account. However, the rate of access to finance varies – sometimes greatly – between states. Kerala has often been cited for its progress in this regard, with the government declaring in 2014 that this southern state had reached full financial inclusion. However, just as there is great variation in financial access between states, there are also differences within states.

Beyond the unique achievements made by Kerala at the macro level, there are underlying spatial patterns and trends that need to be uncovered carefully. Some of these patterns may be unique to the state's social and economic milieu. But there could be others that can act as useful guidance to other states in their efforts to build inclusive financial services. This report digs deep into the MIX Workbook to identify these patterns by analyzing coverage by institution type, the market share of different types of banks, the spread of ATMs and bank branches, the coverage ratio of all financial service providers, and several other indicators of supply and demand.

Through the Model State Data Platform initiative, MIX has highlighted the factors that lead to financial inclusion of states at the district, taluka and village levels. By building a platform with geographic granularity that brings together a range of financial service providers and their products and services – not restricted to traditional bank accounts – this report hopes to assist stakeholders to realistically assess the coverage of financial services and to devise evidence-based strategies to accelerate financial inclusion.

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# 1. Introduction

As the Global Findex 2014 observed, only 52.8% of the adult population in India has access to bank accounts. Additionally, only 43% of adults with a bank account made deposits in the previous year. Unsurprisingly, the level of financial inclusion (FI) within India varies from state to state, with southern states being more financially inclusive than many of the central, eastern and northeastern states. As per CRISIL Inclusix 2014<sup>1</sup>, an index which measures the level of financial inclusion, 45 of the 50 most inclusive districts were from the southern states of Kerala and Tamil Nadu, whereas the majority of the 50 least inclusive districts were from the northeastern and central states.

Kerala and Goa, as well as the union territories of Chandigarh, Puducherry and Lakshadweep, have recently been declared 100% financially included in terms of coverage of all households with at least one bank account. As the *Annual Report 2014-15* of the Reserve Bank of India (RBI) shows, there are 398 million basic savings bank deposit accounts (BSBDA) as on 31st March 2015 (including 147 million accounts under the *Jan Dhan Yojana*). According to the 2011 Census records, there are 247 million households in India. This should mean that every household in the country has at least one bank account.

This, however, is not the case. A large chunk of the BSBDA's are dormant or inoperative. A recent estimate shows that the percentage of active debit cards attached to BSBDA's vary from 5-8% in the case of private banks and 27% in the case of large public sector banks<sup>2</sup>. Further, many individuals hold multiple bank accounts. The publication by MIX, [Mapping Financial Access: Deposit-taking in India](#) suggests that on a median level there are 5.16 bank accounts per household in India. What is important to note is that half of the states have values lower than the average.

A more critical question is whether bank account per household is the best metric to measure financial inclusion considering the diversity of institutional options available for individuals to link to the financial market. Measuring financial inclusion only as a bank-led phenomenon limits the understanding of the role played by other financial service operators like microfinance institutions (MFIs that have 39 million loan accounts on their books spread across 503 of the 642 districts), self-help groups (SHGs) and India Post (that serves over 28 million households and holds 349 million accounts). Also, MFIs are a major channel through which banks meet their priority sector norms, whereas India Post is a major conduit for G2P transfers through its 155,000 access points. To uncover the dynamics of financial inclusion it is important to map the entire landscape covering all the relevant financial service providers (FSPs).

While mapping the financial inclusion landscape it needs to be acknowledged that regions differ in terms of physical and social infrastructure, supply of financial access points as also availability of and demand for products and services. Such differences are most likely to affect the pace and pattern of financial inclusion in specific states. It is important, hence, to comprehensively capture data relating to a variety of contextual factors to be able to understand the differential experiences of states in financial inclusion. This would help different institutions to efficiently navigate the existing landscape of financial services and to assess the

feasibility and viability of their growth plans. Such an exercise would also help policymakers to evaluate the real gaps and excesses at sub-regional levels and design appropriate policies to accelerate financial inclusion to reach out to unserved and underserved populations.

## 1.1. Measuring Financial Inclusion: Initiatives by MIX

MIX has been collecting and publishing financial and social performance data on MFIs in India through the Indian Microfinance Platform - <https://www.themix.org/mixmarket/countries-regions/india> for over a decade. But the 2010 microfinance crisis in Andhra Pradesh ushered in an era of reforms that forever altered the microfinance sector in India and around the world. While the quick policy and regulatory actions could restore normalcy in the microfinance sector, the crisis highlighted the importance of gathering and monitoring granular geographical data on outreach of MFIs across the country. In June of 2013, through its partnership with the Small Industry Development Bank of India (SIDBI), MIX started collecting district level operational data of MFIs.

More recently, MIX partnered with SIDBI to develop the [Microfinance Geographical Index](#)<sup>3</sup>, an interactive platform that evaluates the level of microfinance service at the district level across India. It assigns each district a score from 'highly served' to 'not served' based on MFI presence and service levels relative to local market opportunities, creating a simple reference for analyzing market concentration and gaps.

MIX's work in India has grown beyond microfinance through the financial inclusion platform, FINclusion Lab.<sup>4</sup> Through interactive dashboards and data visualization tools, MIX has mapped over 280,000 access points at the district level in India, which include public sector banks, private sector banks, regional rural banks (RRBs), foreign banks, MFIs and India Post. By including the geo-spatial components of both supply and demand for financial services, the platform provides a nuanced picture of how market characteristics may influence the types or relative performance of FSPs present in any given geographical area. The platform not only allows FSPs to more accurately assess demand for services, new products or delivery channels, but it also helps stakeholders such as policy makers, regulators, and other development professionals to identify problems and devise solutions, which is vital for balanced development of financial markets in such a diverse and expansive country.

## 1.2. MIX's Model State Data Platform

Through the Model State Data Platform initiative, MIX intends to highlight the factors that lead to financial inclusion of states at the district, taluka and village levels. This exercise is expected to help identify the disparities that exist within districts that are otherwise considered to be financially inclusive and reduce barriers to comprehensive financial inclusion. By building a model state platform with geographic granularity that brings together a range of financial service providers and their products and services, MIX would create a new benchmark in measuring financial inclusion. The comprehensive platform thus created would assist financial institutions to realistically assess ground situation with respect to the spread and coverage of financial services and to strategize their interventions across geographies. It would also allow policymakers and regulators to devise informed, evidence-based strategies to accelerate the financial inclusion.

The platform would organize statistical information relating to a range of actors and products/services relevant for measuring financial inclusion under three broad categories – financial service providers, supply side factors and demand side factors (Exhibit 1).



## Exhibit 1. Financial Inclusion Indicators

Financial Service Providers	Supply Side Indicators	Demand Side Indicators
<ul style="list-style-type: none"> <li>Commercial Banks (Public, Private and Regional Rural Banks)</li> <li>Cooperative Banks</li> <li>India Post</li> <li>MFI</li> <li>Business Correspondents</li> <li>Self Help Groups</li> </ul>	<ul style="list-style-type: none"> <li>Number of Access Points</li> <li>Number of Accounts</li> <li>Credit</li> <li>Deposit</li> <li>Number of Self Help Groups</li> </ul>	<ul style="list-style-type: none"> <li>Number of Households</li> <li>Total Population</li> <li>Population Density</li> <li>Urban Population</li> <li>Poor Population</li> </ul>

## 2. Model Data Platform for Kerala

As the first step towards building the platform, MIX has chosen to map the financial service architecture of the southern Indian state of Kerala with a view to delineate the factors that have led to the state achieving near-exhaustive financial inclusion right down to the sub-district (Taluka) level. Kerala has been recognised the world over for its unique model of development that has combined low levels of income with high degree of human and social development, manifesting itself in low rates of poverty and the achievements in education and health sectors. The state records the highest literacy rate – 94% – in the country

### Exhibit 2. State Profile of Kerala

Geographical area (sq km)	38,863
No. of districts	14
No. of talukas	75
No. of villages	1664
Population ('000)	33,406
Rural	17,471
Urban	15,935
% of urban	47.7
Males	16,027
Females	17,379
Sex ratio	1084
Literacy (%)	94.0
Males (%)	96.1
Females (%)	92.1
Population density (people / sq. km.)	860
Per capita income (₹)	127,166
% share of services in GSDP	57.3

Source: Government of Kerala (2016), *Economic Review 201: Volume 1*, State Planning Board, Thiruvananthapuram, February.

and central regions of the state. These banks helped spread the culture of banking widely in these regions early on.

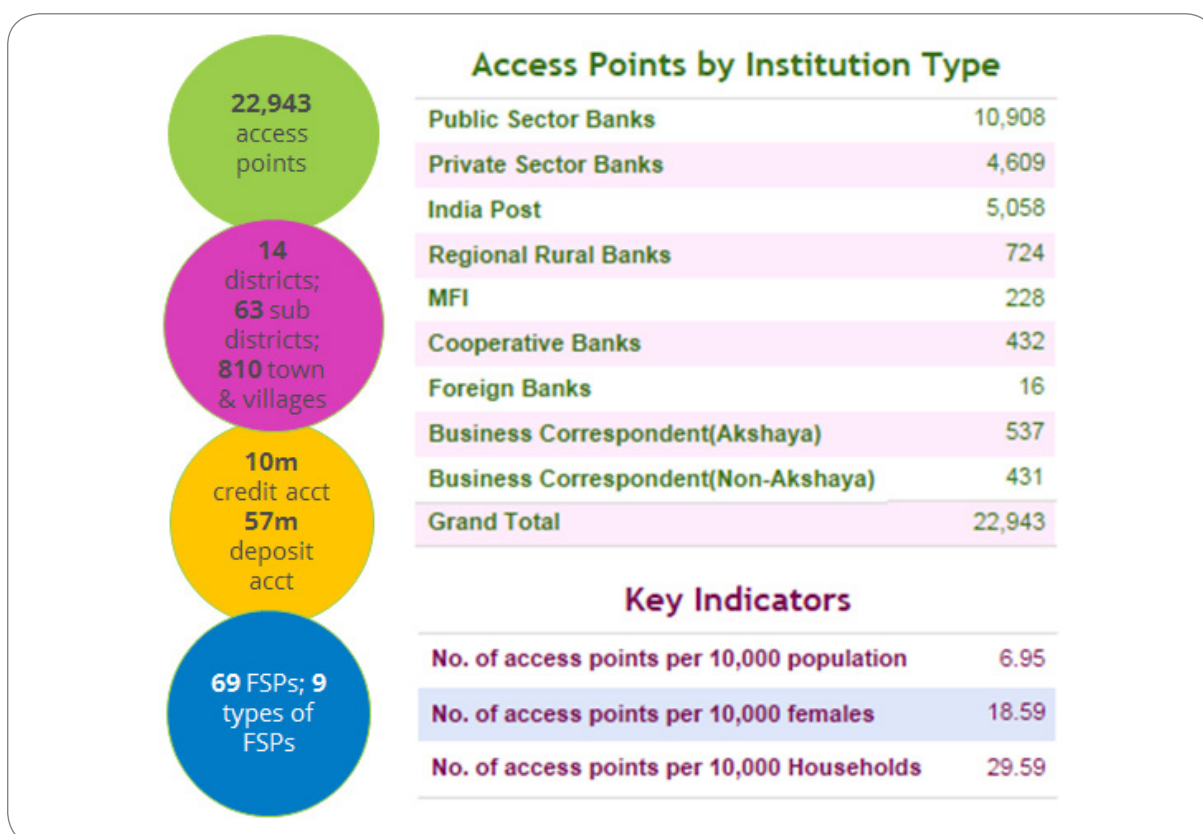
The banking sector in the state grew substantially in the post-independence period. Number of branches increased from just about 600 in 1969 to more than 6700 in 2015. The flow of remittance from overseas Keralites, which drives the growth of economic output of the state, has impacted the state's banking system since the 1980s. A recent estimate shows that Kerala receives the largest share – about 40% – of all remittances that come to India<sup>6</sup>. It is also estimated that more than a third (36.3%) of the net state domestic product in 2014 was accounted for by remittances. A fifth of the households in the state are directly impacted by the flow of remittance. NRI deposits constitute about 31.4% of all deposits with the banking system<sup>7</sup>.

The platform has been built by collating data from official sources like Census of India, the Reserve Bank of India (RBI), Department of Economics and Statistics of the Government of Kerala, and State Level Bankers' Committee (SLBC). Data relating to 14 districts, 63 talukas and 810 towns/villages are mapped in the platform. Demographic and geographical coverage of different types of financial service providers (FSP) is mapped on the supply side, while the intake of financial services – mainly credit and deposit – by individuals and households is considered on the demand side.

### 2.1. Kerala: A Strong Foundation in Financial Services

It is worth noting that Kerala has a long history of indigenous banking. While private moneylenders, hundi merchants and chit funds were the earliest form of informal financial institutions in the state, organized banking had emerged by the late 19th century. The first such bank – the Travancore Bank – was established in 1893<sup>5</sup>. Several banks, most of them incorporated as joint stock companies, started operations subsequently between 1900 and 1947, mostly in the southern

### Exhibit 3. Overview on Access Points and Related Indicators



Kerala's historical focus on the social welfare and security of working and vulnerable people has led to the emergence of a mammoth social transfer programme, mainly in the form of welfare pensions (35.2 million pensioners in total<sup>8</sup>), and wage transfer under MGNREGA (20.4 billion bank accounts and 128,389 post office accounts<sup>9</sup>). The recipients of these benefits and payments are also linked to post offices and banks.

Endowed with an entrenched culture of banking, high literacy rate, significant inflow of remittances from overseas, and a widespread welfare transfer programme, Kerala has emerged as a front runner in the drive towards achieving financial inclusion since the mid-2000s. The state was one of the first to fulfil the targets set as part of the *Swabhiman* scheme in 2011. In the new financial inclusion drive of *Jan Dhan Yojana* (JDY) Kerala too emerged one of the two states (Goa being the other) to have achieved complete saturation in bank accounts ahead of others in November 2014<sup>10</sup>.

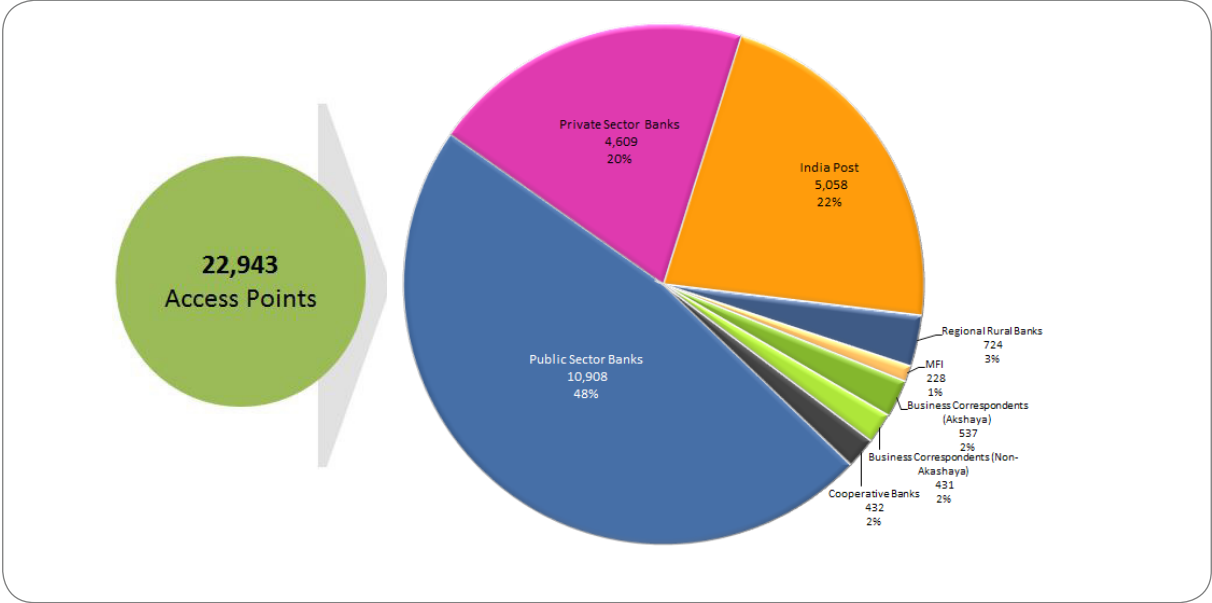
Beyond the above unique achievements made by the state at the macro level, there are underlying spatial patterns and trends that need to be uncovered carefully. Some of these patterns may be unique to the state's social and economic milieu. But there could be others that can act as useful guidance to other states in their efforts to build inclusive financial services. This report digs deep into the [workbook](#) created by MIX to identify these patterns.

## 3. Patterns of Financial Inclusion in Kerala: Working through the Workbook

### 3.1. Supply of Financial Services – Public Sector Banks Dominate

There are a total of 22, 943 financial service access points in Kerala. Public sector banks account for almost half of these (47.5%) followed by the India Post (22%) and private sector banks (20%).

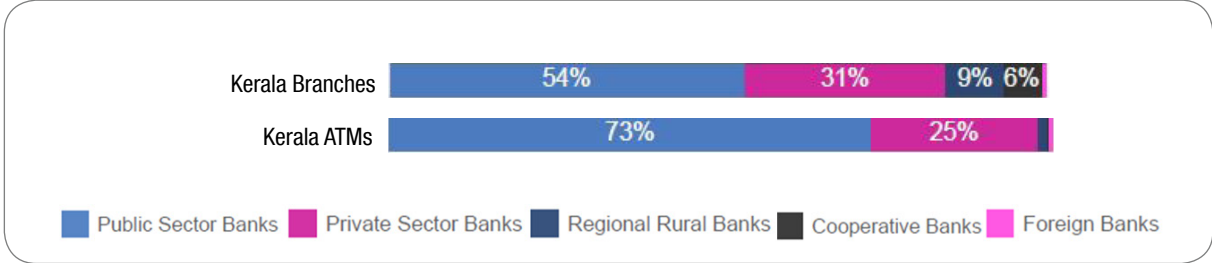
### Exhibit 4. Access Points by Institution Type



Of the 6721 bank branches in the state as on 31 March 2016, public sector banks account for 54% and private sector, 31%. The regional rural bank accounts for about 9% of all bank branches, while cooperative banks have a share of close to 6%. Foreign banks have very few branches – only 16 - in the state.

Of the 9968 ATMs, 73% are operated by public sector banks. ATMs owned by private sector banks form 25% of the network.

### Exhibit 5. Outreach of Various Financial Institutions



The [workbook](#) shows that there are close to 30 financial access points per 10,000 households, 14 of which are outlets of public sector branches, and 6 each are of India Post and private sector banks. For every 10,000 people in the state, there are 7 access points, of which 3 are public sector bank outlets and two each, post office and private sector bank outlets. In the macro scheme, the rest of the institutions have only marginal presence.

A look at the distribution by individual banks shows that the State Bank Group accounts for 28% of all the access points. The share of other nationalised banks is 30% and of the RRB 4.5%, making the overall share of access points belonging to public sector banks stand at 63%. Private sector banks have a share of 37%.

Among the top 10 banks with the highest number of access points, there are three private sector banks – the Federal Bank, the South Indian Bank and Catholic Syrian Bank - that were established in the state before independence. Their combined share in access points is 15%.

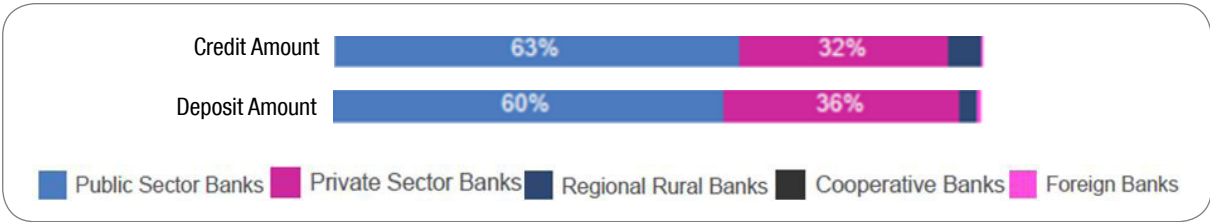
**Exhibit 6. Top 10 Commercial Banks in Kerala**

Top Companies	Type of Institution	# Access Points	%
State Bank of Travancore	Public Sector Banks	2,531	15.58%
State Bank of India	Public Sector Banks	1,978	12.18%
IDBI Bank	Public Sector Banks	1,451	8.93%
Federal Bank	Private Sector Banks	1,266	7.80%
South Indian Bank	Private Sector Banks	1,156	7.12%
Canara Bank	Public Sector Banks	998	6.14%
Union Bank of India	Public Sector Banks	891	5.49%
Kerala Gramin Bank	Regional Rural Banks	724	4.46%
HDFC Bank	Private Sector Banks	467	2.88%
Syndicate Bank	Public Sector Banks	462	2.84%

As far as banking business goes, in both deposit and credit, the public sector banks account for about two thirds. Their share in credit is higher (63%) compared to deposits (60%). Private sector banks, on the other hand, have higher share (36%) in deposits compared to credit (32%).

An important point that emerges from the above analysis is the predominance of public sector banks in Kerala’s financial sector.

**Exhibit 7. % Share of Different Types of Banks in Credit and Deposits**



**Business Correspondents - Playing a Marginal Role**

There are 968 business correspondents attached to various bank branches accounting for about 4% of all financial inclusion channels. These include 431 individual correspondents and 537 kiosks managed by Akshaya Kendras, the citizen service centres. The kiosks are equipped to open bank accounts, make cash deposits/withdrawals and transfer money between bank accounts.

**Post Office Network - Effective Retail Outlets for Saving Services**

The post office network in the state consists of 5058 branches. This is the second largest retail banking system in the state offering financial services including savings and life insurance. As on 31 March 2015, there are 12.38 million accounts of various savings schemes in the Kerala circle<sup>11</sup>. About half of these accounts are savings bank accounts.

## Microfinance: Pervasive Presence of SHGs

Microfinance movement in the state has attracted wide attention globally, mainly because of the state-led rural poverty alleviation programme, *Kudumbashree*<sup>12</sup>, that follows the self help approach. As on 5 March 2016, there are 258,061 *Kudumbashree*-promoted groups in the state<sup>13</sup>.

SHGs have also been formed in the state under the bank linkage programme of NABARD. As per the data published by NABARD<sup>14</sup> as on 31 March 2015 there are 585,471 SHGs in the state that have savings accounts with banks.

Further, there are twelve MFIs operating in Kerala with 350 branches. The two local MFI-NBFCs among them – ESAF and Muthoot Microfin Limited – jointly account for 50% of the MFI branch network. Asirvad, the fourth largest in terms of branch strength, is head quartered in Chennai, but is a subsidiary of non-banking finance company – Manappuram Finance – based in Thrissur, Kerala. A few MFIs from other states also manage their branch operations in certain pockets of the state.

### Exhibit 8. Spread of MFIs

Top Companies	# Access Points	%Share
ESAF*	102	29%
Muthoot Microfin Ltd	74	21%
Bharat Financial (SKS)	53	15%
Asirvad	44	13%
L & T Finance	30	9%
Spandana	13	4%
Ujjivan*	12	3%
Grama Vidiyal	11	3%
Share	5	1%
Madura	4	1%
IMPACT	1	0%
SKDRP	1	0%
<b>Total</b>	<b>350</b>	<b>100%</b>

\* Data for ESAF and Ujjivan is as of December 2015 and September 2015, respectively

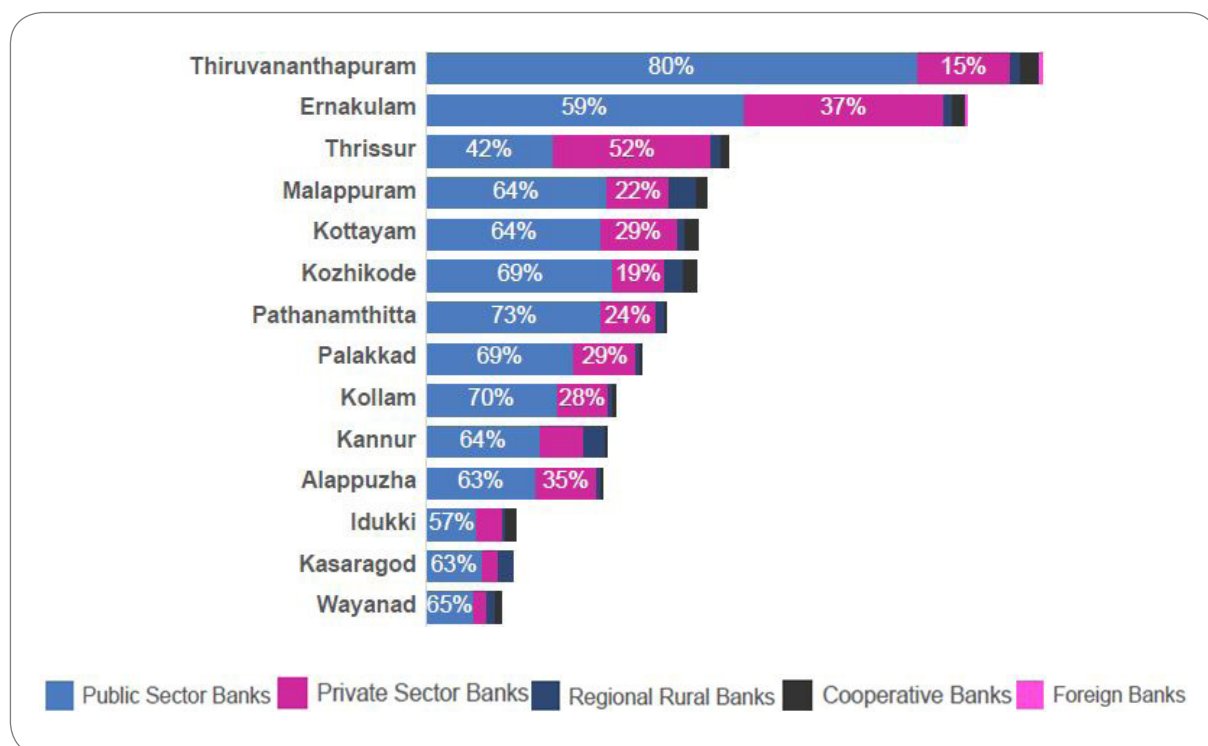
## Public Sector Leads the Way in all, but One, District: But Bank Channels are Crowded in Two Districts

The [workbook](#) makes it easy to disaggregate the overall picture to capture the differences in the spread and coverage of financial services by variety of institutions at the regional (north, central, south), district, and sub-district (taluka) levels.

The district-wise break up of the spread of bank branches shows that there is a concentration of branches in just two districts - Ernakulam and Thiruvananthapuram –which together account for 42% of all branches in the state.

Districtwise comparison of bank branches and ATMs suggests that in all districts, except Thrissur, public sector banks have a better spread. Thrissur is a unique case where the share of private sector exceeds that of public

### Exhibit 9. District-wise Branch and ATM Network of all Institutions



sector. The district has the lowest public sector presence. This does not come as a surprise given the fact that two major local banks in the private sector- the Federal Bank and the South Indian Bank - were originated and are currently headquartered in this district. The public sector presence is the largest in Thiruvananthapuram.

## 3.2. From Understanding Spread of Access Points to Assessing Coverage

The interactive financial inclusion workbook allows the user to derive several indicators to understand the coverage of financial institutions. The MIX [workbook](#) includes a variety of variables that could be used to derive coverage measures. For instance, one could work out coverage ratios for all types of access points by relating the absolute number of such points to the population size to see the extent of demographic coverage of financial and banking institutions. The ratio can be further refined to examine coverage of adult population or women by choosing those as the reference variables. Similarly, if the analysis requires an estimate of household coverage, the number of access points per 10,000 households can be derived from the workbook. In situations where there is very high correlation between population size and number of households across districts, as in Kerala, one could use either population or households as per convenience. A measure of geographic coverage can be worked out by relating the number of access points to geographical area. We have illustrated the use of the available data to work out all these different coverage ratios.

In Exhibit 10 are presented the various coverage ratios by taking into account all access points of all types of institutions.

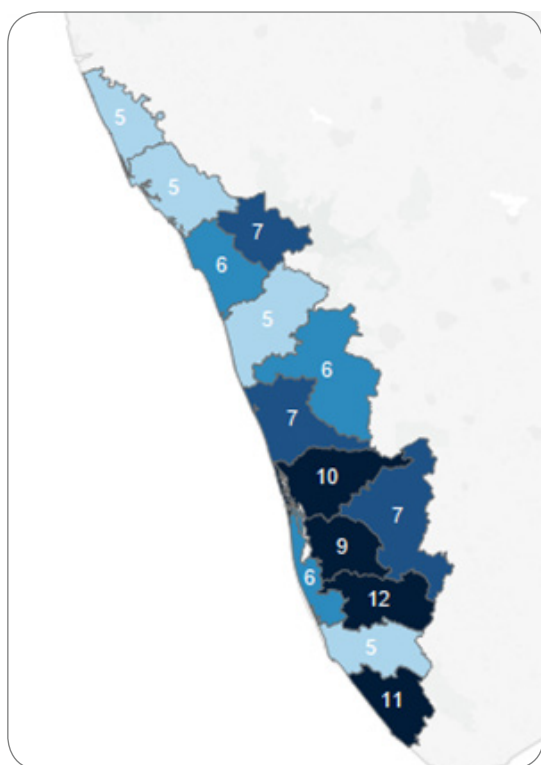
### Exhibit 10. Coverage Ratio of All FSPs

Financial service provider coverage	Ratio
per 10,000 sq. km	6,066
per 10,000 population	6.96
per 10,000 households	29.59

### 3.2.1. Coverage of Financial Services: View across Districts

#### Exhibit 11. District-wise population coverage ratio

(# of Access points / Population per 10,000)



Among districts, the population coverage ratio (of all access points) to population is the highest for Pathanamthitta, followed by Thiruvananthapuram, Ernakulam, and Kottayam in that order. Malappuram has lowest ratio.

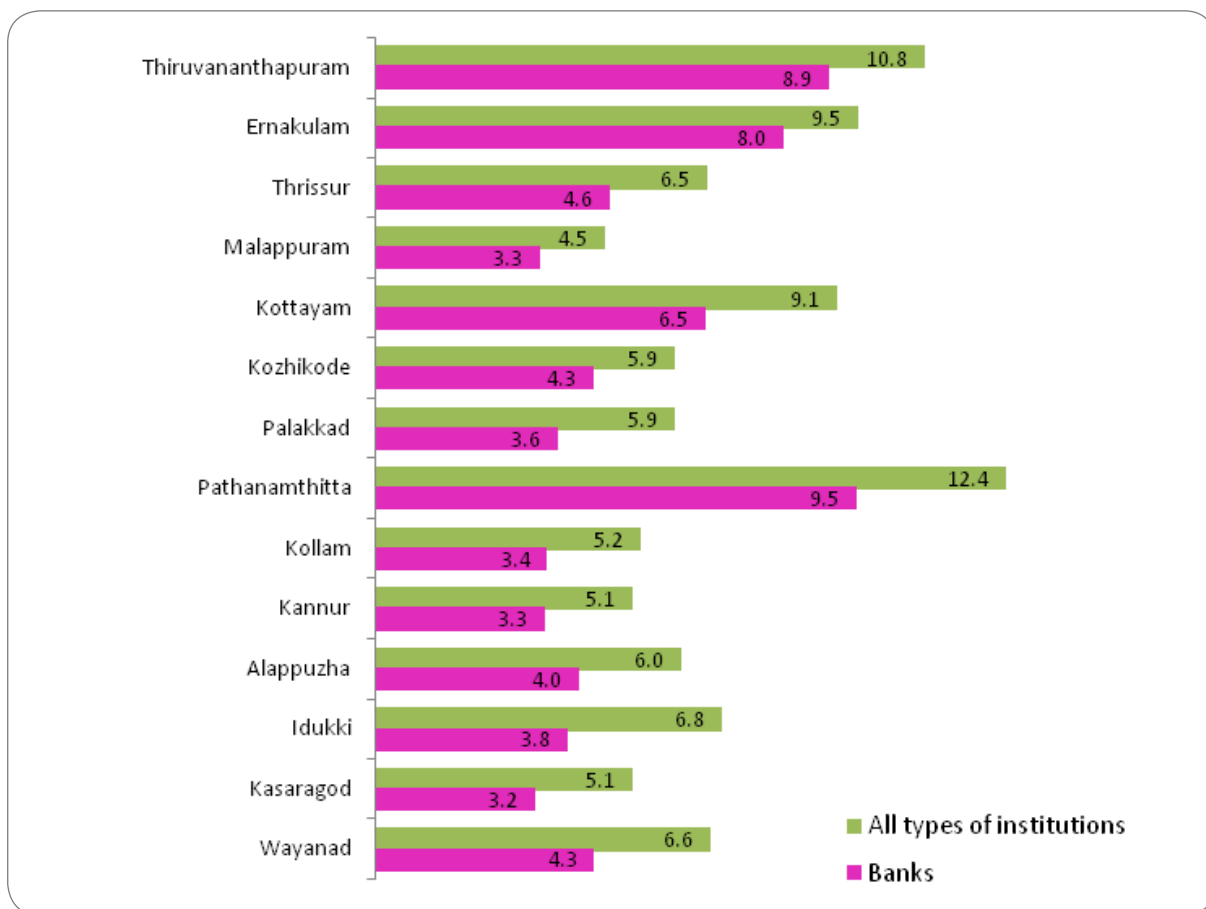
If one exclusively considers banks, which are the only full financial service institutions, the picture remains largely the same. Malappuram improves its ratio and Kasargod becomes the district with the least bank coverage.

Bringing together various channels of financial services delivery (Exhibit 12), it becomes clear that financial inclusion has been an uneven process within the state. There is wide variation in population coverage of financial services. Malappuram ranks the last among all the districts with the least coverage ratios for all FSP and only banks. Kasargod in the north along with Kollam and Idukki in the south and Palakkad in the central region also have relatively lower population coverage by banks. Idukki does much better if one takes all the FSP access points, indicating better spread of non-bank institutions, especially, post offices, in the district (Exhibit 13).

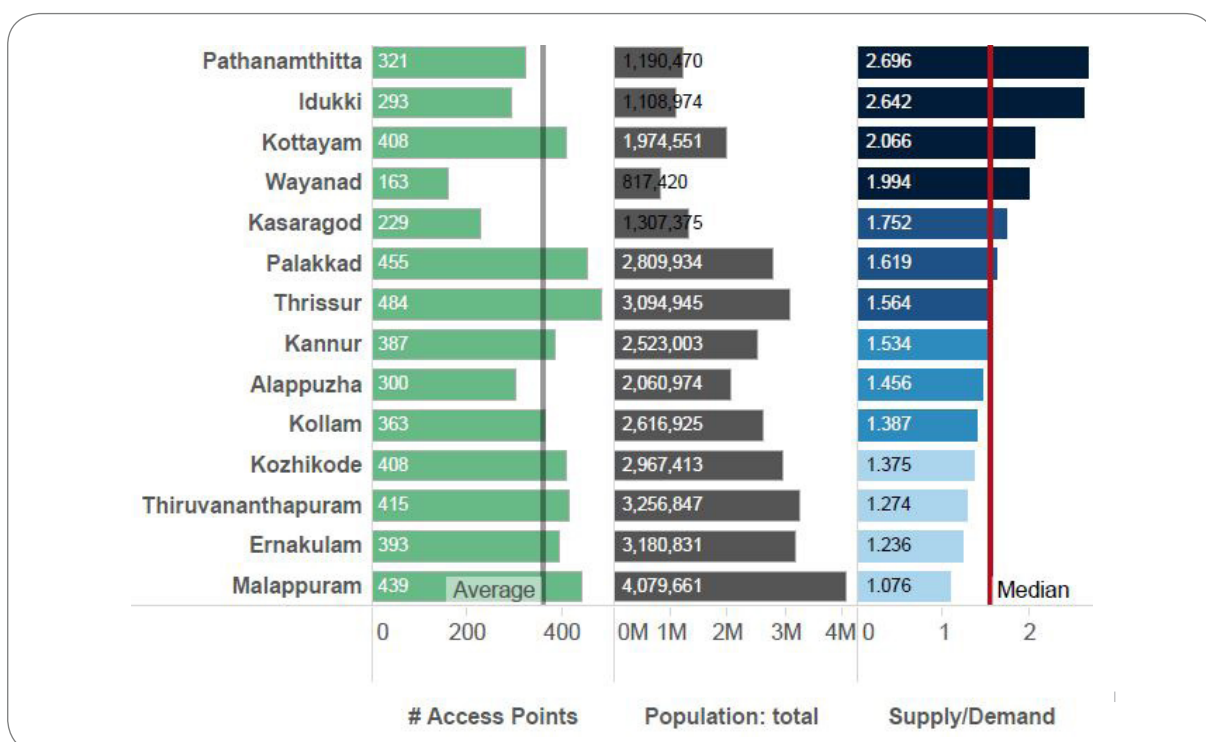
Three districts - Ernakulam, Thiruvananthapuram and Pathanamthitta - come out as far better served by banks and other channels compared to other districts. What are the possible drivers of higher penetration of financial services in the districts? Thiruvananthapuram being the administrative headquarters of the state, has a larger proportion of government and public sector employees. Ernakulam is the commercial capital of the state and historically a centre of banking.

Pathanamthitta district is a unique example of a region that could achieve high growth in financial services without commensurate development in the real sector. Its per capita district income is comparable to Palakkad and Malappuram. The main driver here appears to be significant overseas remittances. In 2014 the district accounted for the second highest ratio of emigrants per 100 households - 42.8 - and the highest ratio of inter-state migrants per 100 households - 38.9. About 23% households in the district received remittances during the year.

**Exhibit 12. District-wise Coverage Ratio (# access points per 10,000 population) - All FSPs and Banks**



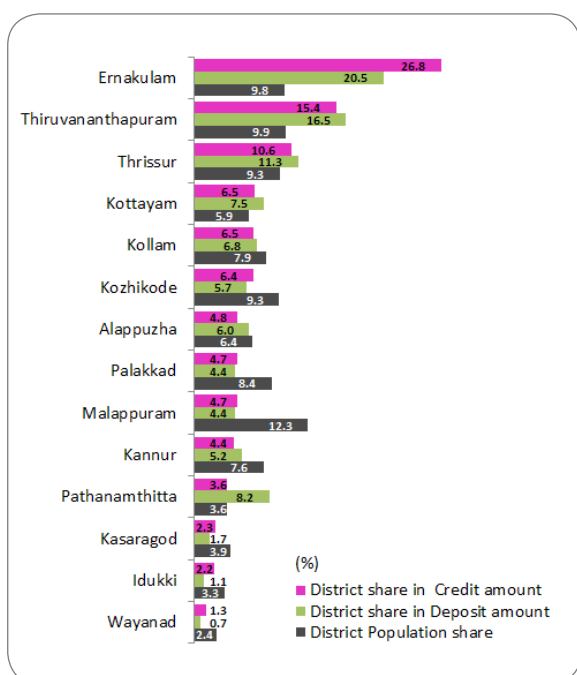
**Exhibit 13. District - wise Coverage Ratio (# access points per 10,000 population) - Post Offices**





## 4. Lopsided Banking Business

**Exhibit 14. Share of Districts in Credit, Deposits and Population**



Earlier analysis indicated that distribution of banking outlets in Kerala is concentrated in just two districts – Ernakulam and Thiruvananthapuram. The imbalance is also reflected in the volume of banking business. The two districts account for 45% of all advances and 37% of all deposits, though their combined share in population is only 19%. At the other extreme there is Malappuram, the district with the highest population share – 12% – but only 5% of total bank credit. Wayanad, Idukki and Kasargod have the lowest shares in both credit and deposits, but they also have the lowest population shares.

The best served districts of Pathanamthitta, Ernakulam and Thiruvananthapuram record the highest deposit and credit account density (defined as number of accounts per 10,000 population). The lowest ranking districts in terms of deposit account density are Malappuram, Idukki and Palakkad. Malappuram, Kannur and Kasargod ranks the lowest in credit account density.

Overall the districts in the northern region have lower ranks in deposit account density, reinforcing the earlier observation about the relative backwardness of the region with respect to financial sector development and inclusion.

### Malappuram – An opportunity district for service providers to expand their outreach

**District: Malappuram, North Kerala**

**# Access Points: 1,841 (8% of Kerala)**

**# of Credit Accounts: 837 thousands (8% of Kerala)**

**Credit: 10,094 crore (5% of Kerala)**

**# of Deposit Accounts: 4,830 thousands (8% of Kerala)**

**Deposits: 14,430 crore (4% of Kerala)**

**Population Density: 1,166 people per sq. km.**

**Access point per 5 sq. km.: 3 Access points**

**Net Value added (% share): 9.4% of Kerala**

**This district has 12.4% of the state's population**

**Facts**

Malappuram is the highest populated district of Kerala with 12.4 % share. In spite of the fact, presence of relatively lower number of access points (1,841, 8% of Kerala) leads Malappuram to having the lowest population coverage ratio of 5 access points per 10,000 populations. The district fares low even in terms of the share in credit and deposit amount with 5% and 4% share respectively. It is the lowest ranked district in terms of deposit account density and credit account density (defined as # accounts per 10,000 populations) with values 12 and 2 respectively.

**Findings**

The above scenario presents Malappuram as an opportunity district for various financial service providers as increasing the number of access points could boost the credit and deposit movement leading to increased share of Malappuram in the net value added to the state which currently stands at 9.4%.

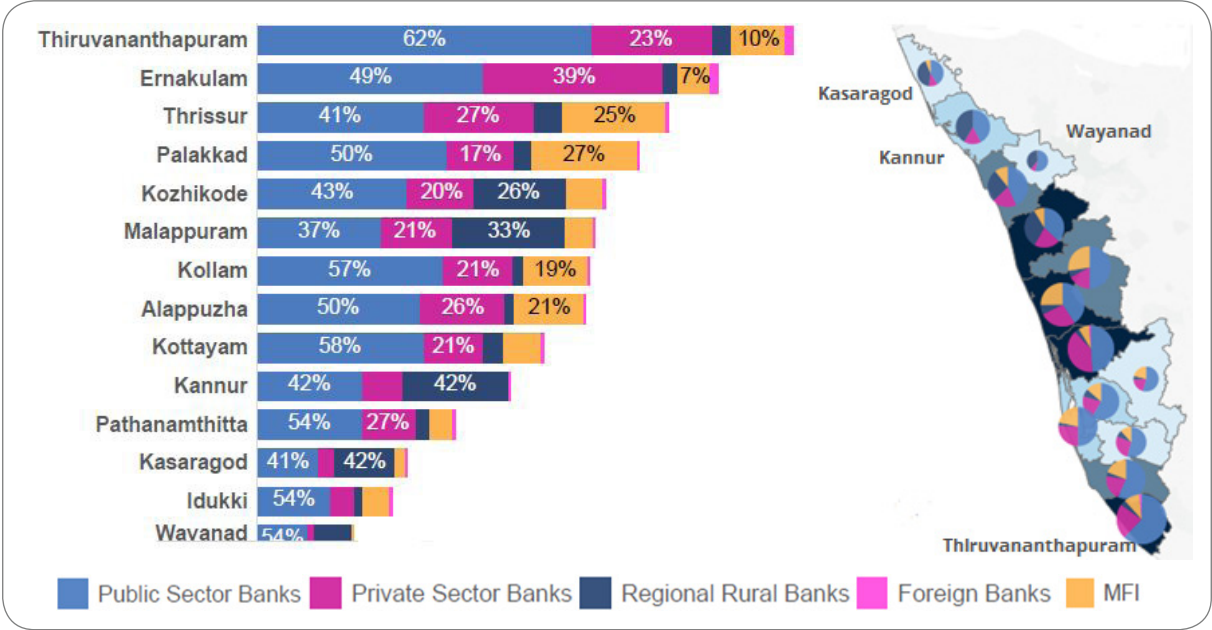
Findings at further granular level – If Malappuram is analyzed at further granular level of taluka, it can be seen that Tirur and Tirurangadi could be opportunities for service providers to expand their services as they have relatively lesser access points per 10,000 population when compared with other talukas of the district (2,444 and 2,454 access points). Digging deeper, it was observed that there were 15 towns/villages which had more than 40,000 population but low access points.

### 4.1. Public Sector Banks have Larger Credit and Deposit Share

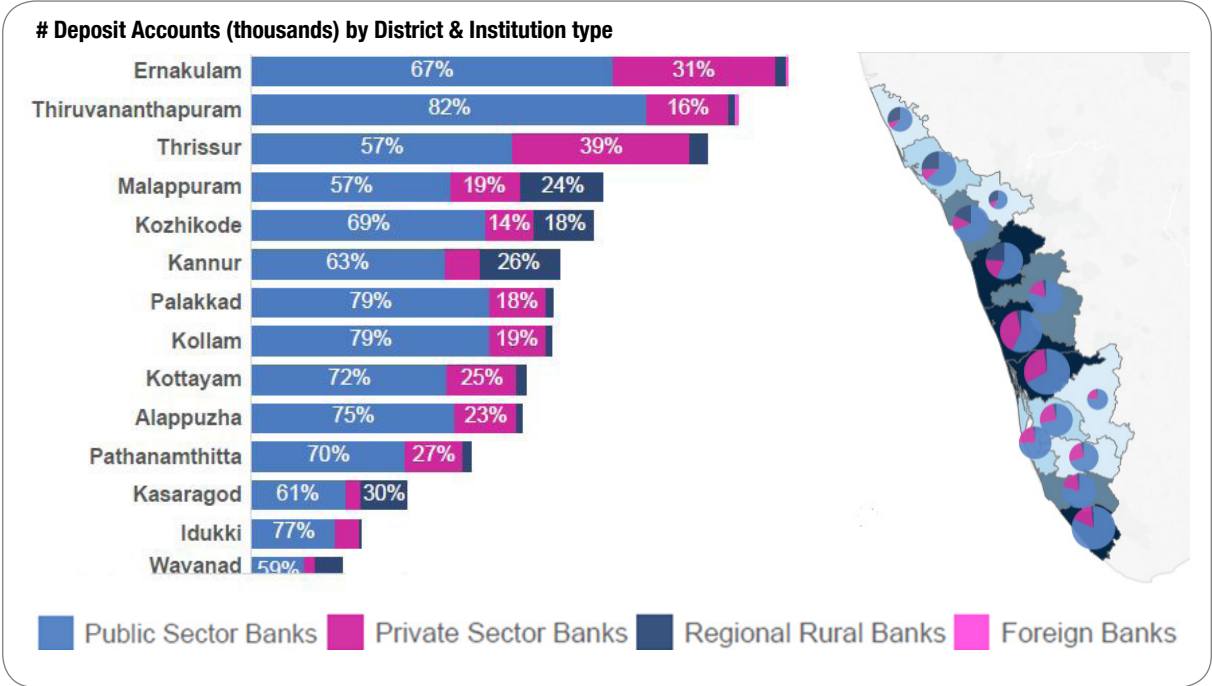
The dominant role of the public sector in the banking sector of Kerala is clear from the institution-wise shares of credit and deposit accounts. The share of public sector banks is particularly high in Thiruvananthapuram. RRB is a major player in the northern region, especially, in Kannur and Kasargod and Wayanad.

MFIs in Kerala seem to have focused their business in central and southern districts. Their share is relatively larger in Palakkad and Thrissur, followed by Alappuzha and Kollam.

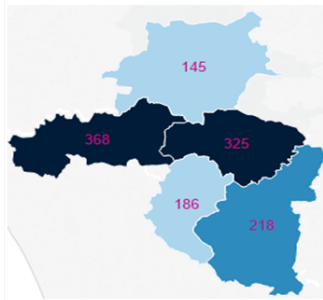
**Exhibit 15. District-wise Share in Credit Accounts by Banks and MFIs**



**Exhibit 16. District-wise Share in Deposit Accounts by Banks**



**Palakkad: In requirement of innovative solutions for better outreach by banks**



Palakkad: Access points per Sub-district

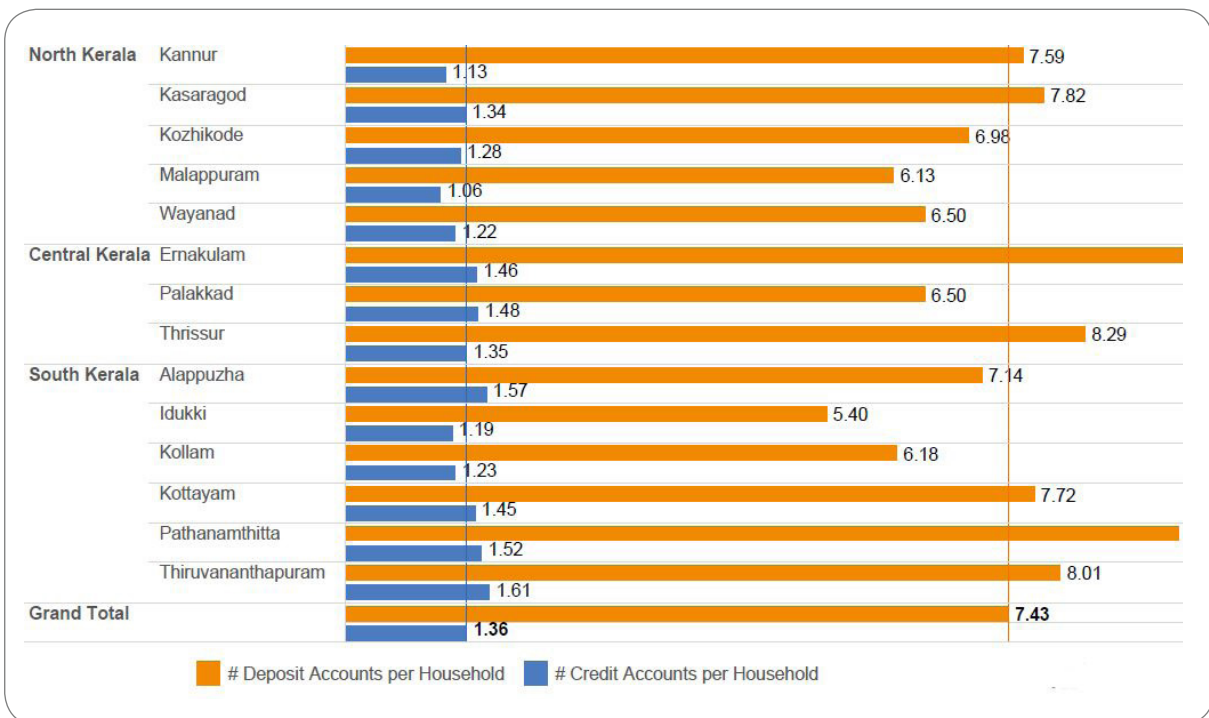
Key Facts:
<b>Population:</b> 2,809,934 <i>(Palakkad has 8.5% of Kerala Population)</i>
<b># Access Points:</b> 1,656 <i>(Palakkad has 7.2% Total Access points)</i>
<b>Area Sq. Km:</b> 4,470
<b>Density:</b> 629 people /sq. km
<b># Access points per 5 sq. km:</b> 2
<b>Net District Value added:</b> 6.8%

**Finding:** Palakkad spreads along the area of 4,470 sq. km., being the largest district of Kerala in terms of sq. km, has only 2 access points per 5 sq. km and lower density of 629 people residing per sq. km. Given the high distances between each access points, Banks find it difficult to create better outreach and would have to rely on better network of business correspondents. On the other hand, Microfinance institutions have a better outreach due to their methodology of being closer to the clients. Hence, some innovative solutions or technology have to be adopted by public or private sectors banks that do not involve brick and mortar structures which could help in increasing the area density of access points.

## 4.2. Predominance of Deposit Accounts

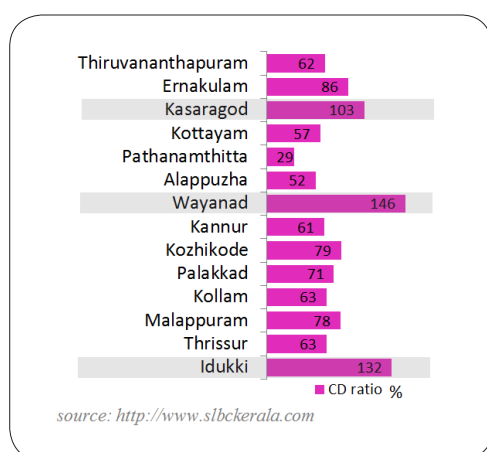
The unevenness in financial services provision is reflected in another indicator. There is a sizeable gap between the average number of deposit and credit accounts per household. The number of deposit accounts per household is about six times that of number of credit accounts per household in the state. Ernakulam and Pathanamthitta have the highest average number of deposit accounts and Idukki, the lowest. In the case of credit accounts, Malappuram’s household average is the least while Thiruvananthapuram has the highest average.

**Exhibit 17. Number of Accounts per Household**



We have mentioned earlier that credit deposit ratio (CD ratio), a critical indicator of banks commitment to its core activity of lending, is low for Kerala – 65%. Why do banks find it difficult to deploy the savings they mobilise from Kerala within the state? Is there a lack of credit demand? Or are the banks cautious about risks and comfortable using the state as a source of mobilising loan capital to be safely deployed elsewhere? These are questions that need to be systematically explored as the state progresses on the path of financial inclusion.

## Exhibit 18. Credit Deposit Ratio by District



### 4.2.1. The Downside of High CDRs

As per the data available with SLBC, the highest CD ratios are recorded for three districts – Wayanad, Idukki, and Kasargod – which figure at the bottom in the case of almost all the indicators discussed in this report. The lowest CD ratio is seen in Pathanamthitta, followed by Alappuzha. In Idukki, Wayanad and Kasargod banks have lent more than what they have mobilised as savings, whereas in Pathanamthitta they deployed less than a third of the deposits.

## Exhibit 19. Bank group wise Financial Intermediation in Idukki and Wayanad

District	Bank Group	Credit (₹ Million)	Deposit (₹ Million)	CD Ratio (%)
Wayanad	State Bank Group	6589.9	6273.1	105
	Nationalized Banks	8869.6	6021.7	147
	RRB	6128.8	3539.8	173
	Private sector banks	5540.4	6293.9	88
Idukki	State Bank Group	13142.2	13690.1	96
	Nationalized Banks	14404.7	7076.7	203
	RRB	1475.1	590.7	250
	Private sector banks	17897.7	14874.4	120

### The Lagging Districts: Need for a New Strategy

On the whole, district level break up of the data mapped in the workbook clearly points to the existence of greater gaps in banking and financial services in the northern districts, especially, Malappuram and Kasargod as also the southern districts of Idukki, Kollam and Alappuzha. In other words, there is greater scope for banks to expand their presence in these districts. The question is how. Opening of more brick and mortar branches or kiosks may be unviable at least in the short term. But banks could think of alternative channels to link banks with households. In other states (Maharashtra, for instance) good SHGs and efficient SHG leaders have been used effectively as business correspondents.

Further disaggregation of credit and deposits in Idukki and Wayanad by type of institution (based on SLBC data) reveals that in both the districts the RRB has the highest CD ratio. However, it has lent almost six times more amount in Wayanad, the district where it is the largest bank in terms of branches and business. However, there is a flip side to this story. Wayanad district is a major contributor (13.2% as per SLBC)<sup>15</sup> to the non-performing assets of the RRB.

# 5. Important Correlates of Financial Inclusion

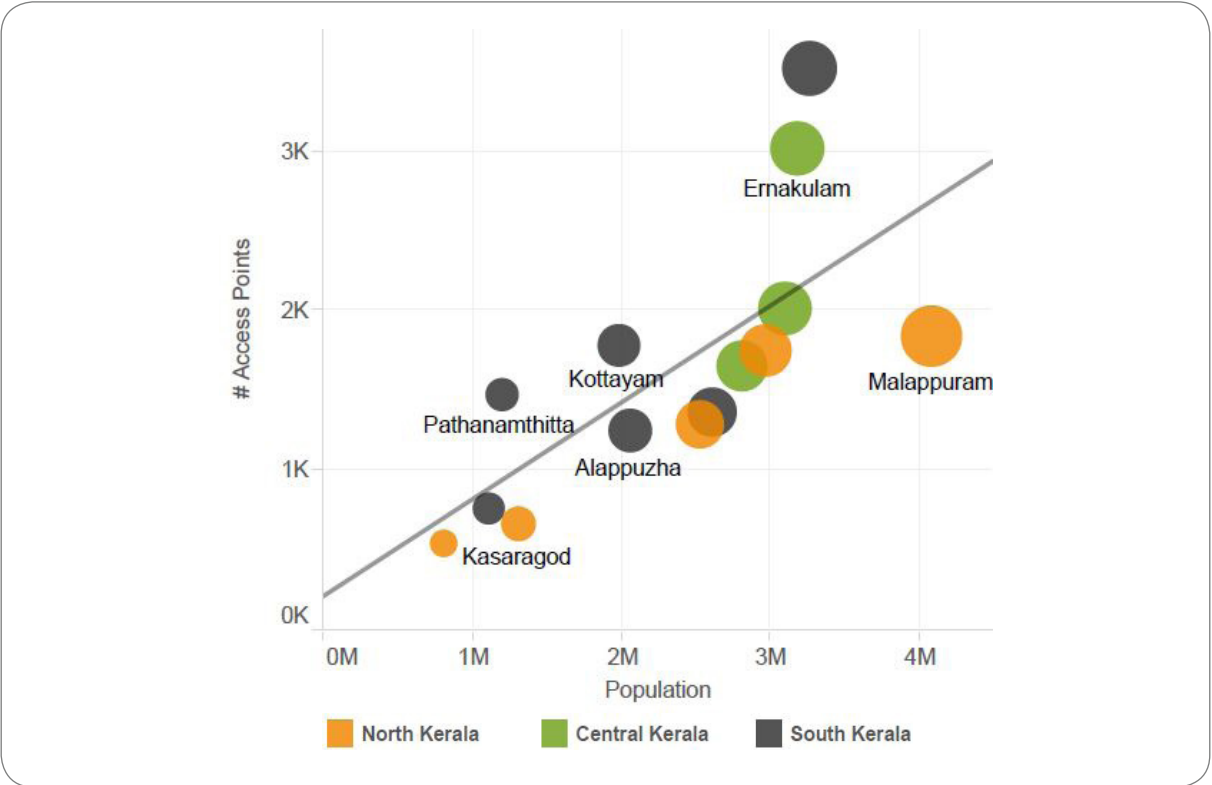
How is institutional coverage related to other social economic indicators? The workbook provides the scope to explore this in several ways. For instance, inter-district differences in availability and coverage of financial institutions can be explained with the help of size/spread of population or urbanisation or the overall income of the district (20 through 24).

Urbanisation or percentage of urban population does not indicate any perceptible association with coverage of financial services in the case of Kerala. Same is the case with population density and coverage. One can identify pairs of districts with comparable population densities, but significantly varying coverage ratios.

The lack of any association observed in Kerala between percentage of urban population and FSP coverage has more to do with the peculiar settlement pattern of population in the state, which is described usually by the term 'rurban', i.e., a seamless stretch of urban and rural settlements organically interacting with each other. This pattern has meant a more even spread of social and physical infrastructural facilities in the state. This has also led to faster urbanisation.

It is clear from the spread of the scatter plots presented that the distribution of access points has some association with population and net value added (NVA). Even the net value added from tertiary sector can be analyzed with the distribution of access points considering sector's overwhelming contribution to Kerala's domestic product.

**Exhibit 20. Association between Population and Spread of Access Points**

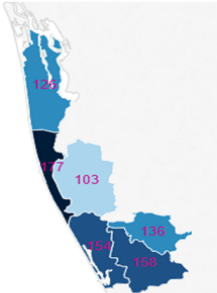


### Exhibit 21. Classification of Districts according to Population Share and Number of Access Points

No. of access points	Population share		
	Low	Average	High
Low	Wayanad Idukki, Kasargod	-	Malappuram
Average	Pathanamthitta	Palakkad, Kollam. Kannur, Alappuzha Kottayam	Kozhikode, Thrissur
High	-	-	Ernakulam Thiruvananthapuram

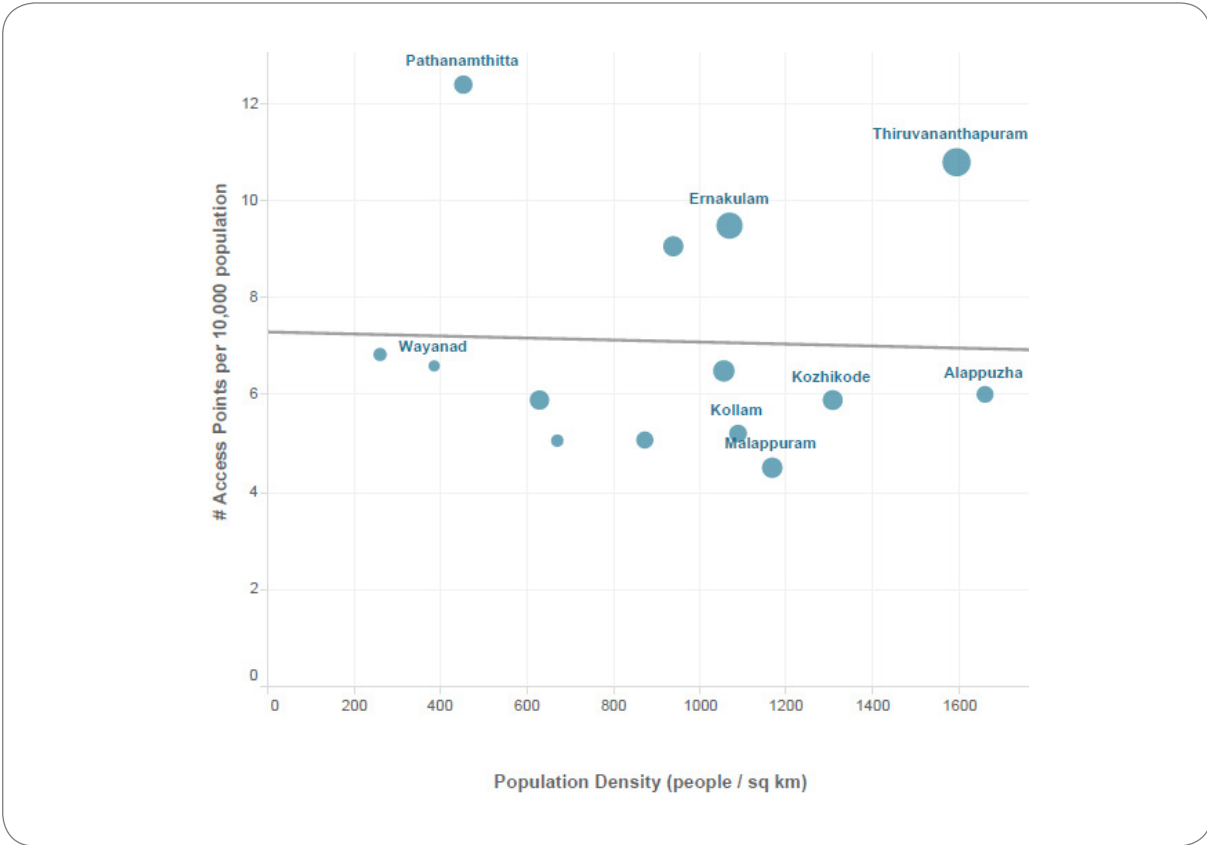
**Alappuzha: Opportunity district to further strengthen the credit deployment through existing access point network**

Key Facts:	Finding:
<p><b>Population:</b> 2,060,974 (Alappuzha has 6.3% of Kerala Population)</p> <p><b># Access Points:</b> 1,241 (Alappuzha has 5.4% Total Access points)</p> <p><b>Area Sq. Km:</b> 4,470</p> <p><b>Density:</b> 1,659 people /sq. km</p> <p><b># Access points per 5 sq. km:</b> 5</p> <p><b>Net District Value added:</b> 6.8%</p>	<p>Alappuzha is the most dense district of Kerala with 1,659 people residing every square kilometer and with second highest in terms of access point per every 5 sq.km (5 Access points). It has been able to attain very well coverage of access points. Hence, with given close proximity of access points, Alappuzha does not require more access points but further outreach from existing network is required. Alappuzha share in credit and deposit mobilization has been on the lower side with 4.8% and 6.3% share respectively. District's share in net district value added (NVA) currently stands at 6.8% which could be very well strengthened if financial education initiatives and/or livelihood initiatives along with further credit facilities could be undertaken.</p>

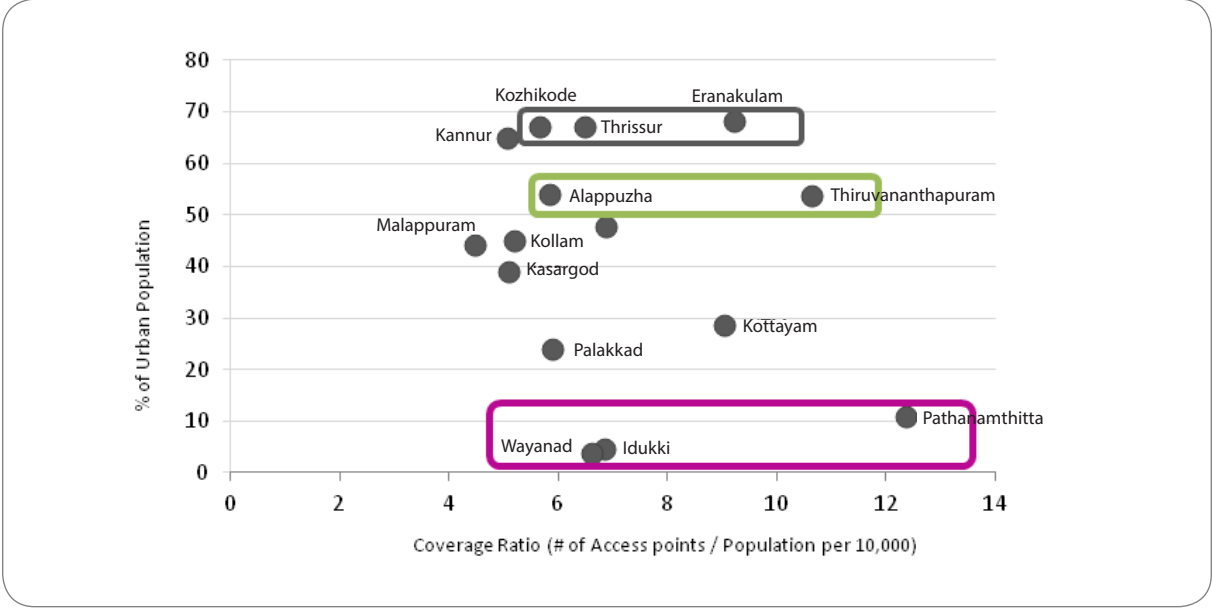


Alappuzha: Access points per Sub-district

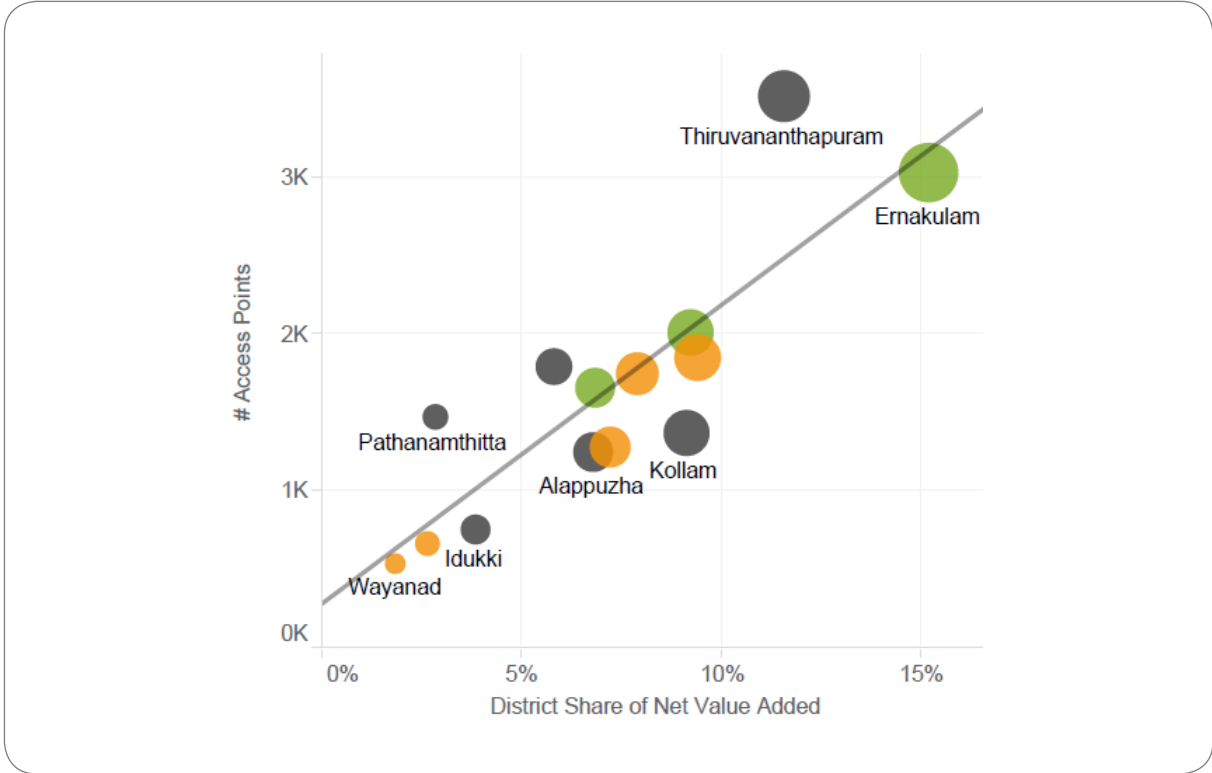
### Exhibit 22. Association between Population Density and Population Coverage Ratio



**Exhibit 23. Association between Urbanisation and Population Coverage Ratio**



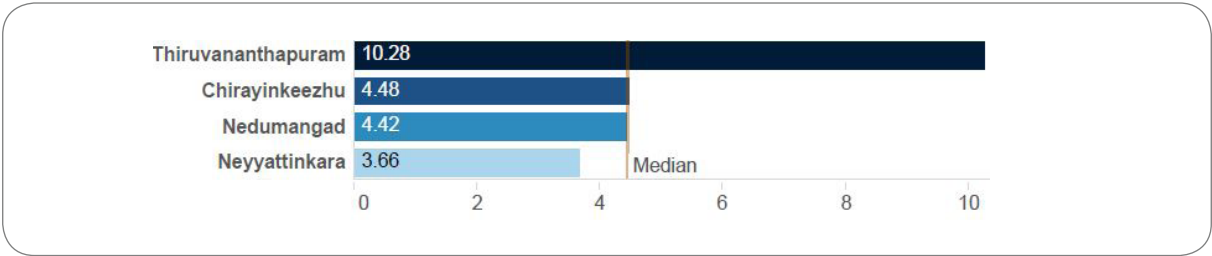
**Exhibit 24. Association between % Share of District Net Value Added (NVA) and Access Points**



### 5.1. Digging Deeper: Going beyond Districts

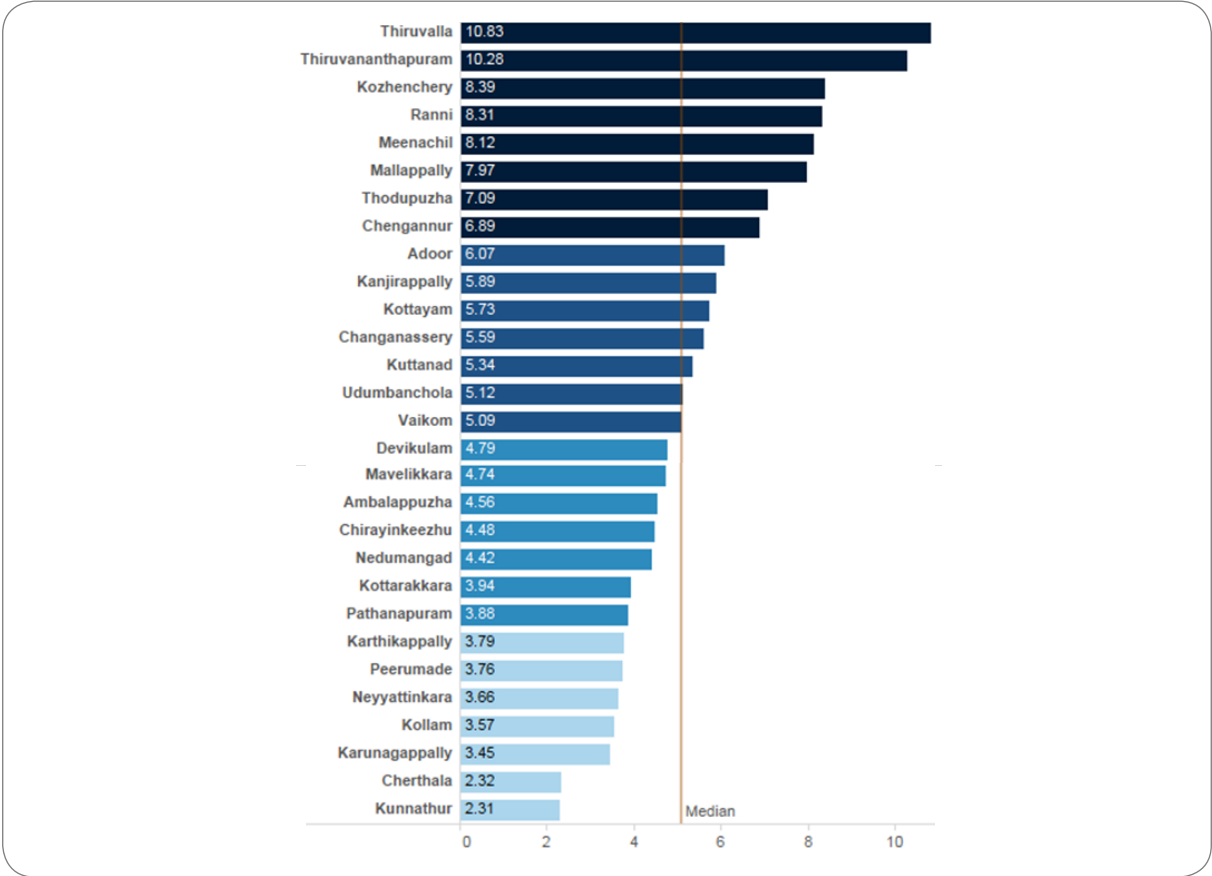
It may be important at times to go beyond the district level to assess intra-district variations in the coverage of financial services. The MIX workbook helps one to see how the chosen indicators perform at the sub-district level. By way of illustration, we could consider the number of access points by 10,000 population or population coverage ratios of the four mapped talukas in Thiruvananthapuram district. While Thiruvananthapuram taluka has more than 10 access points per 10,000 population, Neyyattinkara has less than four.

**Exhibit 25. Taluka-wise Population Coverage Ratio of all Access Points: Thiruvananthapuram**



The disparity within districts becomes more glaring if one considers the southern region as a whole. There are several talukas in the region with ratios of access points to population below the district median value. Some of them (for instance, Cherthala in Alappuzha district, Peerumade in Idukki district) have very low ratios, comparable to the least financially developed districts in the state.

**Exhibit 26. Taluka-wise Population Coverage Ratio of all Access Points: Southern Region**



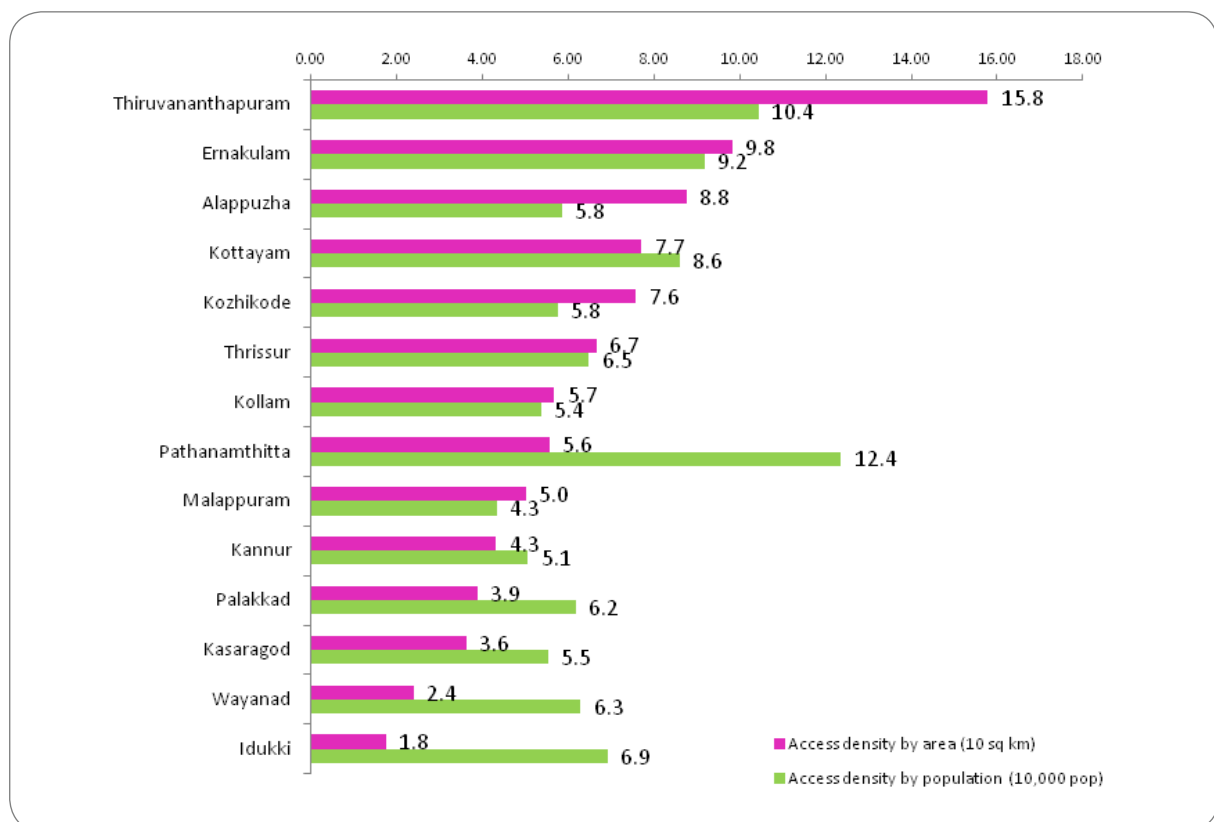


## 5.2. Choosing between Measures

How does one choose between indicators of coverage of financial services? In Exhibit 27 we have presented coverage by all access points taken together from a comparative perspective of demographic and geographical angles using a demographic indicator, i.e., population coverage ratio (number of access points per 10000 population) and a spatial indicator, i.e., area coverage ratio (number of access points per 10 sq.km). While for some districts, both the indicators more or less converge, for some others they diverge significantly.

The district that shows the highest degree of divergence is Pathanamthitta, for which the access density of population far exceeds that of area. Wayanad and Idukki also have larger access densities by population compared to those by area and the lowest access densities by area. These three districts also have the lowest population density (452, 384 and 255 respectively) according to Census 2011. The other important physical attribute common to the three districts is the significant forest coverage- 83% in Wayanad, 78% in Idukki and 66% in Pathanamthitta. It is, hence, plausible that the access densities by area would dramatically improve if adjusted for forest coverage. The point to note here is that blanket measures may not always help in making decisions. Differences among regions need to be appropriately considered while deciding on measure of financial inclusion.

**Exhibit 27. Demographic and Geographic Coverage of Financial Services - Comparison**



Source: Census of India (2011), District Census Handbooks for district-wise geographical area.

## Conclusion

The MIX workbook on Kerala serves a comprehensive platform that helps users generate snap shots of a range of useful indicators of financial inclusion based on authentic data. It maps the entire stretch of formal financial system in the state. As the workbook evolves, it could expand the geographical coverage as also the scope of indicators.

The analysis in this report clearly brings forth certain important features of the financial inclusion experience of Kerala, which is hailed as a model for other states. For one, the state historically has inherited a strong banking culture. Being a state with near total literacy, the importance of banks has been widely understood. Public sector banks appear to enjoy better trust among the people overall. The RRB has been very active in the northern region.

The districts of Wayanad, Kasargod, Idukki and Malappuram lag behind others in many of the financial inclusion indicators. They require innovative solutions given their physical bottlenecks and overall social and economic backwardness.

Further analysis of the mapped data shows that much of banking in the state has been limited to savings. Also credit deployment is highly concentrated in two or three districts.

District level estimates seem to hide the disparities at the taluka and village levels. Even in highly included regions there are talukas that appear poorly served by financial institutions.

## Notes and References

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10. 'Financial inclusion: All households in Kerala, Goa get bank accounts', *Times of India*, November 14, 2014; 'Kerala has been declared as the first 'total banking state'', *Economic Times*, October 1, 2011.
11. Department of Posts, *Annual Report 2015-16*, Ministry of Information and Communications Technology, Government of India.
12. The *Kudumbashree* community network is built as a three-tier structure. At the base are Neighbourhood Groups (NHG) that work on the principles of mutual affinity and benefit. The NHG are federated at the level of a Ward into an Area Development Society (ADS), and further into a Community Development Society (CDS) at the level of the Local Government.
13. Data obtained from Kudumbashree Mission.
14. NABARD, *Status of Microfinance in India 2014-15*, Micro Credit Innovations Department, Mumbai.
15. *Agenda and Background Notes, 117th Meeting of State Level Bankers' Committee, Kerala*, <http://www.slbckerala.com/pdf2015/117SLBC/Agenda%20117%20SLBC.pdf>

The MIX Kerala Workbook link - <http://finclusionlab.org/country/India-Kerala/analytics>

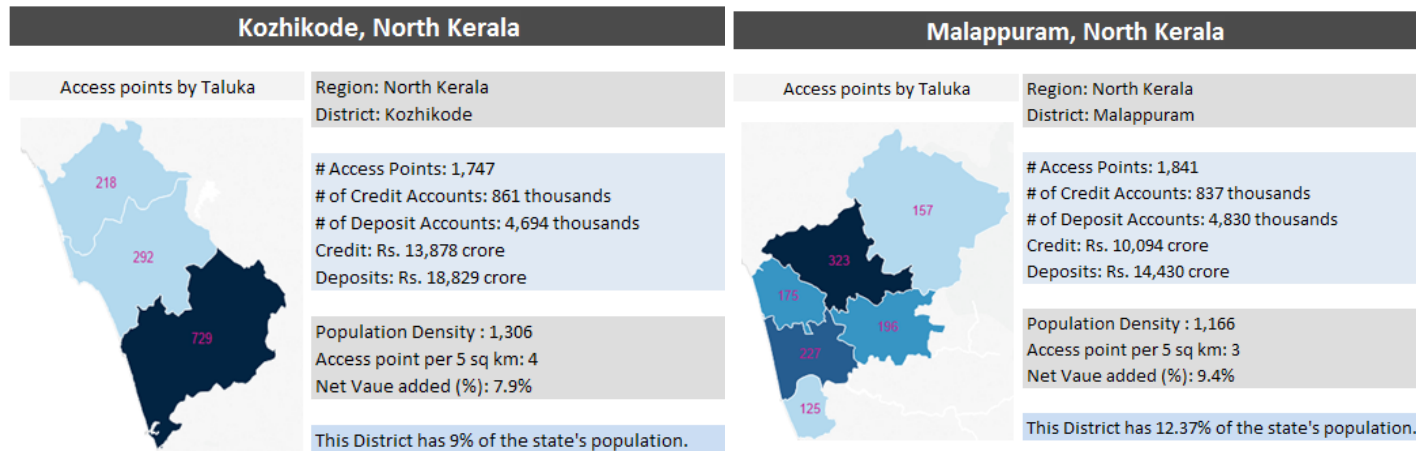
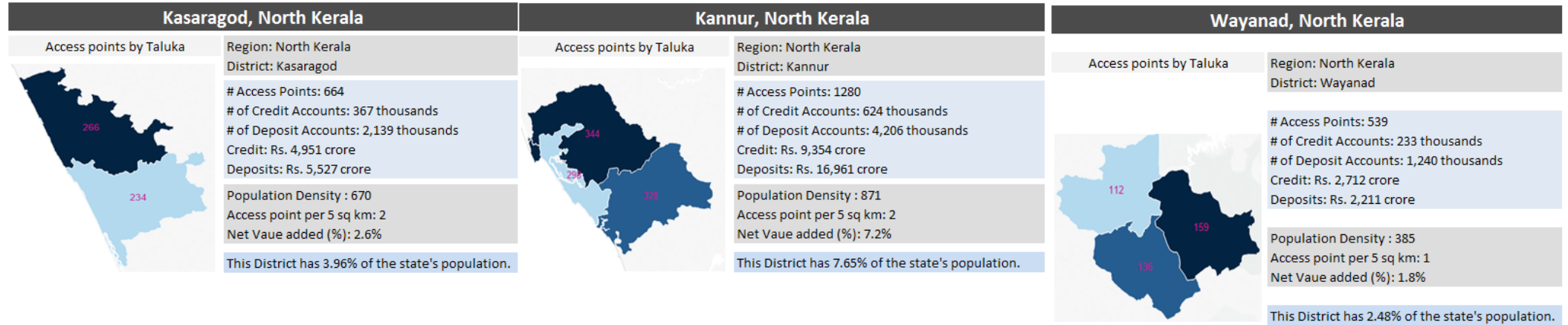
# Appendices

## Appendix I: Supply-Demand Relationships Table

	# Access Point	Population	Area Sq Km	Access Point per 5 Sq Km	Population Density (people / sq km)	% Access Point	% Population Share	% Credit Amount (Rs. Crore)	% Deposit Amount (Rs. Crore)	% Net District Value Added	% Net District Value Added (Tertiary)
Thiruvananthapuram	3,516	3,256,847	2,042	9	1595	15.3%	9.9%	15.4%	16.5%	11.6%	12.3%
Ernakulam	3,023	3,180,831	2,978	5	1068	13.2%	9.6%	26.6%	20.5%	15.2%	17.4%
Thrissur	2,019	3,094,945	2,941	3	1052	8.8%	9.4%	10.6%	11.3%	9.2%	10.0%
Malappuram	1,841	4,079,661	3,500	3	1166	8.0%	12.4%	4.7%	4.4%	9.4%	9.1%
Kottayam	1,792	1,974,551	2,101	4	940	7.8%	6.0%	6.5%	7.6%	5.8%	6.0%
Kozhikode	1,747	2,967,413	2,272	4	1306	7.6%	9.0%	6.4%	5.7%	7.9%	7.7%
Palakkad	1,656	2,809,934	4,470	2	629	7.2%	8.5%	4.9%	4.5%	6.8%	6.6%
Pathanamthitta	1,478	1,190,470	2,634	3	452	6.4%	3.6%	3.6%	8.2%	2.8%	2.7%
Kollam	1,367	2,616,925	2,404	3	1088	6.0%	7.9%	6.5%	6.8%	9.1%	8.2%
Kannur	1,280	2,523,003	2,895	2	871	5.6%	7.7%	4.3%	5.2%	7.2%	7.2%
Alappuzha	1,241	2,060,974	1,243	5	1659	5.4%	6.3%	4.8%	6.0%	6.8%	6.3%
Idukki	758	1,108,974	4,268	1	260	3.3%	3.4%	2.2%	1.1%	3.8%	3.2%
Kasaragod	664	1,307,375	1,951	2	670	2.9%	4.0%	2.3%	1.7%	2.6%	1.8%
Wayanad	539	817,420	2,122	1	385	2.4%	2.5%	1.3%	0.7%	1.8%	1.6%
Total	22,921	32,989,323	37,821			100%	100%	100%	100%	100%	100%
Average	1,637	2,356,380	2,702	3	939						

## Appendix II: District-wise Information

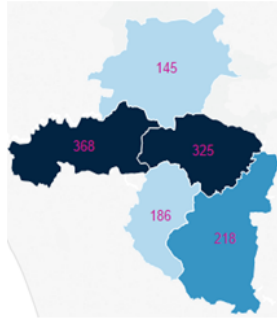
### North Kerala



# Central Kerala

## Palakkad, Central Kerala

Access points by Taluka



Region: Central Kerala  
District: Palakkad

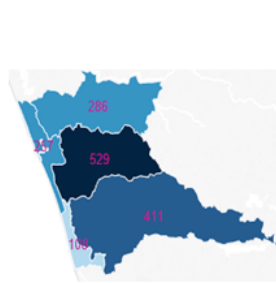
# Access Points: 1,656  
# of Credit Accounts: 946 thousands  
# of Deposit Accounts: 4,140 thousands  
Credit: Rs. 10,513 crore  
Deposits: Rs. 14,597 crore

Population Density : 629  
Access point per 5 sq km: 2  
Net Vaue added (%): 6.8%

This District has 8.52% of the state's population.

## Thrissur, Central Kerala

Access points by Taluka



Region: Central Kerala  
District: Thrissur

# Access Points: 2,019  
# of Credit Accounts: 1,016 thousands  
# of Deposit Accounts: 6,238 thousands  
Credit: Rs. 22,985 crore  
Deposits: Rs. 37,013 crore

Population Density : 1,052  
Access point per 5 sq km: 3  
Net Vaue added (%): 9.2%

This District has 9.38% of the state's population.

## Ernakulam, Central Kerala

Access points by Taluka



Region: Central Kerala  
District: Ernakulam

# Access Points: 3,023  
# of Credit Accounts: 1,145 thousands  
# of Deposit Accounts: 7,351 thousands  
Credit: Rs. 57,589 crore  
Deposits: Rs. 67,410 crore

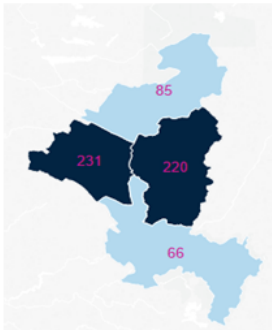
Population Density : 1,068  
Access point per 5 sq km: 5  
Net Vaue added (%): 15.2%

This District has 9.64% of the state's population.

# South Kerala

## Idukki, South Kerala

### Access points by Taluka



Region: South Kerala  
District: Idukki

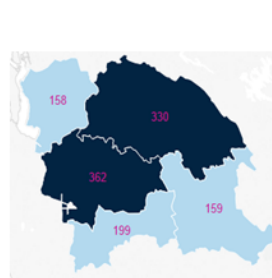
# Access Points: 758  
# of Credit Accounts: 332 thousands  
# of Deposit Accounts: 1,510 thousands  
Credit: Rs. 4,766 crore  
Deposits: Rs. 3,622 crore

Population Density : 260  
Access point per 5 sq km: 1  
Net Vaue added (%): 3.8%

This District has 3.36% of the state's population.

## Kottayam, South Kerala

### Access points by Taluka



Region: South Kerala  
District: Kottayam

# Access Points: 1,792  
# of Credit Accounts: 709 thousands  
# of Deposit Accounts: 3,762 thousands  
Credit: Rs. 14,118 crore  
Deposits: Rs. 24,782 crore

Population Density : 940  
Access point per 5 sq km: 4  
Net Vaue added (%): 5.8%

This District has 5.99% of the state's population.

## Alappuzha, South Kerala

### Access points by Taluka



Region: South Kerala  
District: Alappuzha

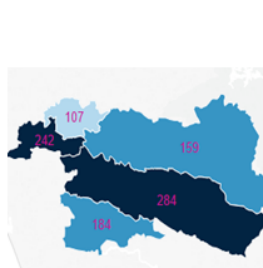
# Access Points: 1,241  
# of Credit Accounts: 816 thousands  
# of Deposit Accounts: 3,714 thousands  
Credit: Rs. 10,422 crore  
Deposits: Rs. 19,656 crore

Population Density : 1,659  
Access point per 5 sq km: 5  
Net Vaue added (%): 6.8%

This District has 6.25% of the state's population.

## Pathanamthitta, South Kerala

### Access points by Taluka



Region: South Kerala  
District: Pathanamthitta

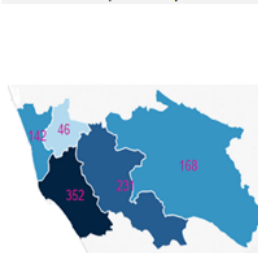
# Access Points: 1,478  
# of Credit Accounts: 487 thousands  
# of Deposit Accounts: 2,991 thousands  
Credit: Rs. 7,760 crore  
Deposits: Rs. 26,870 crore

Population Density : 452  
Access point per 5 sq km: 3  
Net Vaue added (%): 2.8%

This District has 3.61% of the state's population.

## Kollam, South Kerala

### Access points by Taluka



Region: South Kerala  
District: Kollam

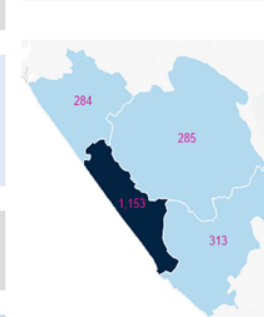
# Access Points: 1,367  
# of Credit Accounts: 820 thousands  
# of Deposit Accounts: 4,111 thousands  
Credit: Rs. 14,050 crore  
Deposits: Rs. 22,265 crore

Population Density : 1,088  
Access point per 5 sq km: 3  
Net Vaue added (%): 9.1%

This District has 7.93% of the state's population.

## Thiruvananthapuram, South Kerala

### Access points by Taluka



Region: South Kerala  
District: Thiruvananthapuram

# Access Points: 3,516  
# of Credit Accounts: 1,334 thousands  
# of Deposit Accounts: 6,639 thousands  
Credit: Rs. 33,245 crore  
Deposits: Rs. 54,205 crore

Population Density : 1,595  
Access point per 5 sq km: 9  
Net Vaue added (%): 11.6%

This District has 9.87% of the state's population.



**ASIA REGIONAL OFFICE**

801-A, 8th Floor  
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