

## **The Role of Karnataka Vikas Grameena Bank in Driving Financial Inclusion through Banking Sector Reforms**

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### **Abstract**

Financial Sector Reforms are essential for adapting to dynamic financial landscapes and evolving needs. In the context of India, ongoing banking sector reforms play a crucial role in enhancing accessibility, adopting technological advancements, and ensuring inclusivity. The Reserve Bank of India oversees these reforms, with Regional Rural Banks (RRBs) serving as vital channels for credit delivery in rural areas with the objective of credit dispersal to small, marginal farmers and socio-economically weaker sections of the population for the development of agriculture, trade, and industry. Key components of banking sector reforms include the liberalization of the banking industry, the entry of private sector and foreign banks, asset quality improvement, recapitalization of public sector banks, financial inclusion initiatives, and technology adoption. This paper focuses on the ongoing banking sector reforms, with a specific emphasis on the role played by Karnataka Vikas Grameena Bank in promoting financial inclusion and uplifting neglected segments of the population.

**Keywords:** Financial sector reforms, Banking sector reforms, Regional rural banks, Financial inclusion.

## **Introduction**

Financial inclusion is a means of providing individuals with banking and financial services. By providing individuals with fundamental economic services, notwithstanding their income or savings, it seeks to include everyone in society. Its main objective is to offer financial support to those who are economically disadvantaged. It promotes economic growth by enabling individuals and businesses to access and utilize financial resources for investment, entrepreneurship, and consumption.

The goal of financial inclusion is to involve all members of society in controlling their finances. Providing access to financial services empowers individuals to save, invest, and manage their finances more effectively, ultimately contributing to poverty reduction.

India has a large number of needy households without access to financial services. They have no idea what banks do. Many impoverished people lack access to banking services, even if they are aware of them. Financial Inclusion encompasses providing affordable and accessible credit facilities to individuals and small businesses, allowing them to invest in income-generating activities, education, healthcare etc.

The idiom is generally used to refer to the affordable and user-friendly supply of savings and lending services to those who are in need. It seeks to guarantee that those who are disadvantaged utilise their finances wisely and acquire financial literacy. An increasing number of companies are currently streamlining the process of achieving financial inclusion due to advancements in digital transactions and financial technology. Establishing transparent and cost-effective financial products and services for marginalised groups through transparent institutional player participation is known as financial inclusion.

## **Financial Inclusion Schemes in India**

The Reserve Bank of India introduced the idea of financial inclusion to the Indian subcontinent in 2005 with the publication of the Annual Policy Statement. The idea quickly began to spread over the entire country. The Khan Committee report placed a strong emphasis on assisting people in opening a bank account without any extra features or complex components to give them access to basic financial services.

The Indian government has been implementing several exclusive programs to promote financial inclusion. The goal of these programs is to give social security to the less fortunate members of society. Following extensive preparation and study by numerous financial specialists and legislators, the government introduced several programs with financial inclusion in mind namely, Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Vaya Vandana Yojana (PMVVY), Atal Pension Yojana (APY), Sukanya Samriddhi Yojana, Jeevan Suraksha Bandhan Yojana, Stand Up India Scheme, Pradhan Mantri Mudra Yojana (PMMY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Credit Enhancement Guarantee Scheme (CEGS) for Scheduled Castes (SCs), Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives, Varishtha Pension Bima Yojana (VPBY)

### **Role of the Banking sector in Financial Inclusion**

The primary goals of the Reserve Bank include enhancing financial inclusion and loan delivery. To help those who do not have access to banking, it has implemented several initiatives to encourage financial inclusion. These include: setting up Financial Learning and Credit Counselling Institutions to offer free financial tutoring and credit counselling, investing in the priority sector to increase credit availability to small businesses and agriculture; organising outdoor Financial Literacy Camps with an emphasis on the underprivileged, and visiting villages to spread awareness of the benefits of engaging with the formal banking sector.

The banking sector plays a very important role in India by mobilizing savings and allocating loans for investment and manufacturing. The Indian household population can be broadly classified into two primary groups: rural and urban. To achieve effective financial inclusion, banks must always consider these target groups and integrate them into the banking system in a way that benefits both parties. Banks have two options for enhancing financial inclusion: (i) offering banking and associated services; and (ii) offering assistance and non-banking services.

### **Overview of Karnataka Vikas Grameena Bank**

The government of India issued a notification on September 12, 2005, establishing the Karnataka Vikas Grameena Banks. In the state of Karnataka, the four regional rural banks supported by Ease indicate banks - Malaprabha Grameena Bank, Bijapur Grameena Bank, Varada Grameena Bank, and Netravati Grameena Bank have been combined. By March 31, 2023, the bank served over 88 lakh customers in 87 talukas throughout nine districts - Bagalkot, Belagavi, Dakshin Kannada, Dharwad, Gadag, Haveri, Udapi, Uttara Kannada, and Vijayapura by meeting their financial needs.

The bank has 629 branches throughout the state, divided into three categories rural (427), semi-urban (140), and urban 62. The bank, operating in nine districts of northern and coastal Karnataka has 10 regional offices. It also has 49 ATMs along with one mobile ATM.

The National Schedule Cast Finance Development Corporation (NSCFDC), National Schedule Tribe Finance Development Corporation (NSTFDC), and NABARD are providing refinancing facilities to the bank. The various programs put into place with refinance assistance are being observed by the directives provided by the relevant refinancing bodies. The bank has been taking care of the dimensions of the SHG members by conducting training programs through RSETIs/RUDSETIs. The bank has provided nearly 6.07 Crore for schemes protecting greenhouses and poly houses.(AR-2023)

## Literature Review

**Sumathi (2015)** pointed out that 18.5 percent of the country's GDP comes from agriculture, which is one of the main pillars of the Indian economy. Agriculture obtains its importance because it is the foundation of India's rural livelihood security system, provides a means of subsistence for the country's rural people, and has essential supply and demand ties with the industrial sector.

**Baligatti, Danappanavar (2016)** Assess the Karnataka Vikas Grameena Bank's contribution to lending to the state's key sectors using metrics such as loan disbursements to a range of priority sectors, including trade, services, allied activities, agriculture, and SSI units. According to the study, the KVG Bank has lent the most money to the agricultural industry than to any other rural sector and has a major impact on the industry's growth.

**Chandrashekar (2018)** The article's main focus was on Soubhagya Mahila Souharda Sahakari Bank Niyamita's (SMSSBN) economic function. For the members of the Souharda Women Co-operative Bank in the state of Karnataka, it serves as an example. Self-Help, Mutual Aid, Fully Owned Managed, Self-Reliant, and Economic Enterprises are the cornerstones of SMSSBN Bank. In addition to financial support such as share capital, reserves, deposits, working capital, investments, loans, and advances, the bank offers business-oriented programmes for women including advance deposit programmes, pigmy deposit programmes, savings deposit programmes, current account deposits, advance deposits, and Suraksha double deposits.

**Laxmisha (2018)** stated that Regional Rural Banks are specialised rural financial institutions established to foster rural economic growth by educating rural residents about banking practices and utilising idle funds through deposits. Deposit accumulation plays a significant role in dictating the banking institution's growth direction.

**Pattanashetti (2019)** evaluates the effects of agricultural loans provided by the KVGB on small farmer households in terms of employment level, income, savings, assets, and living standard between the pre-credit and post-credit periods in the study area.

## Research Gap

A key initial step towards equitable development is financial inclusion. It benefits in the underprivileged population's general monetary development. In India, the poor and disadvantaged must be provided with modified financial inclusion for their status to be elevated. This results in inclusive growth that includes the underprivileged bank segments across multiple industries. Some studies are done on the catering of loans, and developing and promoting schemes by analysing KVG and other rural banks. Some studies analysed the impact of financial inclusion on economic growth and originate varied results.

In light of this, this research aims to determine the current state of financial inclusion in banking sector and assess the role of Karnataka Vikas Grameena Bank's financial inclusion initiatives in the economic growth of the state.

## Objectives

1. To study the role of Karnataka Vikas Grameena Bank in financial inclusion
2. To measure the elements influencing financial services accessibility
3. To study the influence of policies of financial inclusion adopted by Karnataka Vikas Grameena Bank

## Research Methodology

The current analysis is based on secondary data that was gathered from official KVG Bank records and annual reports from a variety of years. This essay aims to investigate the Function and Performance Assessment of KVG Bank towards financial inclusion. The study period is confined to 5 years from 2019 to 2023 and also collected from Reports the trend and progress of banking in India, Articles, Research Journals, E-Journals, Books and Magazines.

## Performance of KVG Bank 2019-2023

The Karnataka Vikas Grameena Bank has attained a net profit of Rs 40.25 crore during 2022-23 with 26.18% growth. The Gross NPA ratio is at 6.96% in 2023 and Net NPA at 4.64%. Provision coverage Ratio (PCR) stood at 46.28% as at March 2023. The Bank is targeting a business level Rs. 35,700 crore in 2023-24

Particulars	2019	2020	2021	2022	2023
Deposits (in Cr.)	13894.88	15178.49	16100	17647	18710.43
Total Business ( in Cr)	25257.39	26268.81	27818	30748	33150.80
Net profit (in Cr)	50.12	6.50	26.81	31.90	40.25
Advances (in Cr.)	11362.51	11090.32	11718	13101	14440
Net worth (in Cr.)	1743.49	1138.53	1192.62	1224.42	1264.56
Total Branch	636	633	629	629	629
CD Ratio	81.77%	73.07%	72.79%	74.23%	77.18%

Table 1 : Performance at Glance ( Source – Annual Reports of KVGB)

The KVG bank appears to be in good financial health, with growing deposits, a strong loan portfolio, and increasing profits. The CD ratio suggests the effective utilization of deposits for lending activities. The increasing net worth implies a stronger asset base, potentially enhancing the bank's stability and lending capacity. Net worth has generally increased, which is a positive sign for the bank's financial stability. It indicates that the bank's assets exceed its liabilities. There's a consistent increase in deposits from 2019 to 2023, indicating the bank's ability to attract and retain deposits from customers.

### Financial Inclusion Initiatives by KVG Bank

Financial inclusion was incorporated by KVG Bank as a product. It seeks to guarantee that all households, including those in underbanked and unbanked areas, have access to formal and basic banking services.

**1. Service of Business Correspondents (BCs)-** In accordance with GOI/MOF/DFS Directions, the bank is actively implementing complete financial inclusion under mission mode and has established 872 Sub-Service Areas (SSA) to cover 2033 communities. Of these, 541 SSAs were served by Business Correspondents (BCs) and 331 SSAs were handled by already-existing Bank Branches. They are also Performing SB account Opening and SHD dual authentication. The connections of BCs are being monitored through online dashboard information. Failed /Reserved /RuPay Card transactions in HHMs of BC are being supervised on daily basis.

Particulars	2019	2020	2021	2022	2023
Average BC transaction Per BC per Day	25	29	23	28	45
No.of AEPS transaction through BCs	37,50,300	51,40,898	60,87,513	50,36,498	1,13,84,481
No. of RuPay Card Transactions through BCs	3,03,646	1,83,318	1,69,603	1,10,596	45,263
RuPay Debit Cards Issued (PMJDY &General)	17,83,267	7,91,063	9,65,154	10,43,209	10,46,015
RaPay Card Activisation	10,82,443 (61%)	3,82,551 (48%)	5,79,219 (60%)	6,51,907 (62%)	6,72,301 (64%)
No. of Active KCC a/cs	2,41,713	2,00,653	3,29,743	374342	4,23,746
KCC RuPay Cards Issued	2,41,713	1,61,827	2,43,019	245378	67,697
KCC RuPay Activisation	1,66,228	1,61,827	2,21,642	223841	38,392

Table 2: Distribution of BC RuPay and KCC cards  
(Source – KVGB Annual Reports)

The average transactions per Business Correspondent (BC) per day have shown variations over the years. There was a peak in 2023 with 45 transactions per day, suggesting increased engagement or efficiency. Increased adoption of KCC among farmers, showcasing the bank's success in promoting agricultural credit. The growth in active KCC accounts reflects the bank's commitment in supporting the agricultural sector.

## 2. Implementation of Pradhan Mantri Jan-Dhan Yojana (PMJDY)

Designed as a nationwide financial inclusion initiative, the Honourable Prime Minister launched the Pradhan Mantri Janathan Yojana on August 15, 2014. The plan envisions every family having **at least one basic bank account** and having universal access to financial facilities. The bank started implementing the Ministry of Finance's guidelines and the sponsor bank's PMJDY plan in 2014. The Bank has opened 20,68,643 PMJDY accounts with this scheme with an outstanding balance ₹ 1,35,956. Schemes like APY, PMJJBY and PMSBY are also high priority under the Prime Minister Social Security Schemes.

Sl. No.	Parameter	As on 31.03.2019	As on 31.03.2020
1	No. of PMJDY a/cs opened	16,58,465	17,29,218
2	No. of accounts with Zero balance	1,86,446	54,218
3	Balance in PMJDY (₹ in lakhs)	58722	77927
4	No. of SSA	872	873
5	No. of Wards allotted	219	219
6	No. of SSA covered	872	873
7	No. of Wards covered	219	219
8	No. of Households	10,64,733	10,65,033
9	No. of Households covered	10,64,733	10,65,033
10	No. RuPay Cards issued	15,67,415	4,02,726
11	No of SSAs where Household survey is completed	872	873
12	No of Wards where Household survey is completed	219	219
13	No. of Accounts seeded with Aadhaar Number	16,15,662	16,86,455
14	No. of Accounts seeded with Mobile Number.	10, 98,738 (66%)	11, 69,495 (67%)
15	No. of BSBDA accounts sanctioned with Overdraft facility	18,753	4,753
16	Total OD limit sanctioned (₹ in lakhs)	776.30	214.10

Image 1 : Scheme visualisation for 2019 & 2020 (KVGB Report)

Sl. No.	Parameter	As on 31.03.2021	As on 31.03.2022
1	No. of PMJDY a/cs opened	18,11,314	18,46,150
2	No. of accounts with Zero balance	71,545	31,009
3	Balance in PMJDY (₹ In lakhs)	88456	109247
5	No. of SSA	873	872*
6	No. of Wards allotted	219	219
7	No. of SSA covered	873	872
8	No. of Wards covered	219	219
9	No. of Households	10,64,733	10,64,733
10	No. of Households covered	10,64,733	10,64,733
11	No. RuPay Cards issued	15,63,354	15,43,934
12	No of SSAs where Household survey is completed	873	872
13	No of Wards where Household survey is completed	219	219
14	No. of Accounts seeded with Aadhaar Number	17,29,638	17,93,033
15	No. of Accounts seeded with Mobile Number.	12,49,703(69%)	13,13,097(71.12%)
16	No. of BSBDA accounts sanctioned with Overdraft facility	4,035	2,967
17	Total OD limit sanctioned (₹ In lakhs)	191.6	80.12

Image 2 : Scheme visualisation for 2021 & 2022 ((KVGB Report)



Sl. No.	Parameter	As on 31.03.2022	As on 31.03.2023
1	No. of PMJDY a/cs opened	18,46,150	20,68,643
2	No. of accounts with Zero balance	31,009	51,282
3	Balance in PMJDY (₹ In lakhs)	109247	1,35,956
5	No. of SSA	872*	872*
6	No. of Wards allotted	219	219
7	No. of SSA covered	872	872
8	No. of Wards covered	219	219
9	No. of Households	10,64,733	10,64,733
10	No. of Households covered	10,64,733	10,64,733
11	No. RuPay Cards issued	15,43,934	10,46,015
12	No of SSAs where Household survey is completed	872	872
13	No of Wards where Household survey is completed	219	219
14	No. of Accounts seeded with Aadhaar Number	17,93,033	20,16,124
15	No. of Accounts seeded with Mobile Number.	13,13,097(71.12%)	15,63,037(75.55%)
16	No. of BSBDAs accounts sanctioned with Overdraft facility	2,967	2,054
17	Total OD limit sanctioned (₹ In lakhs)	80.12	73.40

Image 1 : Scheme visualisation for 2022 &amp; 2023

The Progress under Aadhaar & Mobile Number Seeding					
Particulars	2019	2020	2021	2022	2023
Aadhaar Seeding (Bank as a whole)	37,92,948 (95%)	39,76,541 (95%)	42,08,451 (94%)	45,51,625 (94.51%)	47,95,855 (97.76%)
Mobile No. Seeding (Bank as a whole)	36,32,940 (91%)	38,18,630 (91%)	40,50,943 (91%)	44,12,047 (91.61%)	46,56,277 (92.01%)

Table 3 : Active accounts under PMJDY Scheme ( Source- KVGB Reports)

The bank has shown consistent progress in Aadhaar seeding from 95% in 2019 to 97.76% in 2023. The increase in Aadhaar seeding indicates a high level of integration between the bank's systems and the Aadhaar database. This is crucial for various financial and non-financial services, as Aadhaar serves as a unique identifier for individuals. Seeding mobile numbers is essential for facilitating communication with account holders, enabling mobile banking services, and receiving important notifications.

This both indicates positive progress for the bank, demonstrating a commitment to data integration and leveraging these identifiers for improved customer services and operational efficiency. Continuous monitoring and strategic enhancements can further optimize the use of Aadhaar and mobile number data for the benefit of both the bank and its customers



### 3. Digitalisation

Business Correspondents are working for Digitalisation in villages. KVG Bank has covered 43 Villages under 100% digital transactions through AEPS, RuPay Card, and Mobile App UPI-BHIM. Service of One Mobile ATM Van is used where BC service is not available.

Financial Literacy programs were conducted by banks to provide knowledge of how money works in day-to-day life and how someone manages it. The bank has sponsored 10 FLCs in 9 Districts. All 10 FLCs undertaken by Canara Financial Advisory Trust (CFAT) Bangalore from April 2020.

FLCs are run under the name “**Arthika Saksharata Kendra, Amulya**”. During 2022-23 FLCs Conducted 2,032 camps educating 1,75,496 participants. These programs were conducted in Rural and Semi-urban Branches with the assistance of NABARD. In the year 2022-23, 100 programs were conducted at the village level to create awareness about the benefits of Banking, Social security schemes, digitalisation.

Particulars	2020	2021	2022	2023
Camps Organised	3,139	1,157	1,717	2,032
Participants/Beneficiary	1,16,517	60,429	1,19,709	1,75,496

Table 4: Details of Camps Organised by KVGB (Source- KVGB Reports)

### 4 . Implementation of the Social Security Scheme

Karnataka Vikas Grammena Bank, providing financial services to a large segment of the underprivileged and low-income population at a reasonable cost is a national priority. Programmes for social security must be flexible enough to adjust to shifting societal demands, shifting demographics, and shifting economic situations. Frequent evaluations verify that the programmes achieve their goals, measure the impact on the target population, and point up areas for improvement.

Total Number of Customers Covered					
Scheme	2019	2020	2021	2022	2023
<b>PMJJBY</b>	3,60,339	4,36,023	5,14,152	6,06,663	7,35,533
<b>PMSBY</b>	9,83,781	10,99,663	11,89,321	12,95,310	16,32,829
<b>APY</b>	95,468	1,37,253	2,06,214	2,64,817	3,41,386

Table 4: Implementation of PMJDY (Source- KVG Bank Reports)

**Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):** The number of clients covered under PMJJBY has shown consistent growth over the years, increasing from 3,60,339 in 2019 to 7,35,533 in 2023. The increasing trend may indicate the success of awareness campaigns or the perceived value of the life insurance coverage provided by the scheme.

**Pradhan Mantri Suraksha Bima Yojana (PMSBY):** Similar to PMJJBY, the number of customers covered under PMSBY has also exhibited steady growth. The coverage increased from 9,83,781 in 2019 to 16,32,829 in 2023. This growth suggests that the accident insurance coverage offered by PMSBY is gaining acceptance among the targeted population.

**Atal Pension Yojana (APY):** The number of customers covered under APY has experienced substantial growth, from 95,468 in 2019 to 3,41,386 in 2023. The significant increase may indicate the success of efforts to promote pension planning and financial security for individuals in the unorganized sector.

### **Findings and Conclusion**

The role of Karnataka Vikas Grameena Bank in driving financial inclusion through banking sector reforms is of paramount importance in fostering economic development and reducing disparities in rural areas. Through strategic initiatives, innovative financial products, and a commitment to serving the unbanked and underbanked populations, the bank has played a pivotal role in bringing about positive changes in the financial landscape of Karnataka.

The implementation of various banking sector reforms, such as digitization, technology adoption, and inclusive policies, has allowed the Karnataka Vikas Grameena Bank to expand its reach and offer accessible financial services to marginalized communities. By leveraging these reforms, the bank has effectively bridged the gap between urban and rural financial inclusion, empowering individuals and communities to participate in the formal economy. Furthermore, the bank's emphasis on financial literacy programs and capacity-building initiatives has empowered customers with the knowledge and skills necessary to make informed financial decisions. This not only enhances their financial well-being but also contributes to the overall economic development of the region.

As a key player in the financial inclusion drive, Karnataka Vikas Grameena Bank has demonstrated a commitment to the principles of sustainable and inclusive growth. By extending banking services to the grassroots, the bank has not only uplifted the economic status of individuals but has also contributed to the larger goal of building a financially inclusive society.

In essence, the Karnataka Vikas Grameena Bank stands as a model for how banking sector reforms can be effectively harnessed to drive financial inclusion. Through its proactive approach, the bank has become a catalyst for positive change, fostering economic empowerment and creating a more inclusive and resilient financial ecosystem in Karnataka.

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