Chapter – II
Theoretical Background and Review of Literature

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THEORETICAL BACKGROUND AND REVIEW OF LITERATURE

“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”

- Franklin D. Roosevelt

2.1 Introduction

This chapter is designed to provide background to main study. In this chapter theoretical background, review of literature and research problems are dealt with. Theoretical Background and Review of Literature provide insight about the study which is very much essential for further the study in the right direction. Statement of the research problem is necessary to get clear idea to carry out the study. Identification of research gap helps to provide answer to what exactly has to be done in current research.

2.2 Theoretical Background

Business Dictionary.com provides definition to theoretical framework as “A group of related ideas that provides guidance to a research project or business endeavor. The appropriateness of a theoretical framework that a marketing department is using to promote its corporate and product image to the consuming public can be an important determinant of its ultimate success”. Theoretical Framework supports the study as foundation supports the house.

2.2.1 Financial Intermediation Theory:

Financial intermediaries are extending financial support to carryout developmental activities by mobilizing savings, allocating capital to needy projects, monitoring the capital allotted projects and managing risks efficiently (Javanovic, 1990; King and Levine 1993). In this manner they help to exploit profitable investment opportunities. Otherwise profitable opportunities will go unexploited (Gold Smith, 1969; Mc Kinon 1973). They are also providing payment, settlement, clearing services. That is what Joseph Schumpeter argued that financial intermediaries help to economic development.
Financial intermediation theory initially starts with the Arrow-Debreu model. The theory assumes the pattern of complete markets in which savers and investors have perfect information on each other’s preferences. In this situation intermediaries are superfluous and there is no necessity of existence of financial intermediaries. The necessity of financial intermediaries arises only when there is imperfect competitive market. In such market they play significant role of intermediation.

Financial Intermediaries while operating have to deal with three types of problems, i.e. information problems, transaction costs and regulatory factors. The “informational asymmetry” is lack of symmetrical information among banks, borrowers and lenders. Informational asymmetries generate the problem of adverse selection and moral hazard (Akerlof 1970), Stiglitz and Weiss (1983), Diamond (1984), Gale and Hellwig (1985) argued financial intermediaries help to overcome asymmetric information problems.

Financial intermediaries deal with the problem related to transaction costs as they are the organizations mediating lenders and borrowers and to achieve economies of scale in the transaction. The transaction costs include not only monetary costs (Tobin, 1963; Fischer, 1983), but also monitoring, auditing and other costs (Benston and Smith, 1976). Financial intermediaries emerge to reduce and partially overcome these costs.

Related to the third problem of regulatory factors, regulatory mechanism of the economy controls the activities of financial intermediaries (Guttentag and Lindsay, 1968; Fama, 1980; Mankiw, 1986; Merton, 1995). Regulation may adversely affect liquidity and profitability of financial intermediaries. But regulation is the crucial factor and that has impact on financial safety, security and soundness.

2.2.2 Modern Approach of the Theory:

Bert Scholtens and Dick van Wensveen (2003) interpreting the traditional financial intermediary theory and gave modern version of approach. Previous version of financial intermediary theory set on the belief that they reduce transaction costs and informational asymmetries. The growth and deregulation of financial markets, development of information technology are expected to reduce transaction costs and informational asymmetries. Currently the focus of banks has been shifted to the concept of value creation through efficient risk management.
Michael Porter (1985) introduced the concept of value creation. The absorption and able management of risks, overcomes the difference between supply and demand of finance. Financial intermediaries take up and handle market risk, maturity risk, life expectancy risk, counterparty risk, and income expectancy risk etc by spreading the range of investments needed to bring safety in financial market.

The ICT revolution bridges the informational gap between savers and investors and helps them to deal directly in open markets. Modern version of financial intermediary theory considers that innovative products of ICT revolution, instead of ending financial intermediation, lead to new forms of intermediation. Here information gathering, selection, and processing costs replace the transaction costs. ICT revolution facilitates to develop Customized financial products and services to suit the requirements of customers.

The contemporary banking theory distinguishes between five main banking functions: risk management, asset transformation, payment services, information processing and borrowers monitoring. All these functions intend to offer appropriate banking products and services to customers according to their requirements through innovations (Merton, 1995).

2.2.3 Theory of Trickle-Down Growth and Development:

The Theory of Trickle-Down Growth and Development proposed by Philippe Aghion and Patric Bolton discusses the trickle-down effect of capital accumulation in the presence of imperfect capital markets. The mechanism of the theory depends on borrowing and lending in the capital market. The accumulation of more funds will be diverted to investment purpose. If funds are available to poor, that enables them to overcome poverty. Trickle-down process i.e., redistribution of wealth from rich to poor and middle-class borrowers starts only with intervention of government in financial matters. It brings about greater equality of opportunity and improves the production efficiency of the economy. The redistribution efforts will yield significant results which will have positive impact in long run.

The above referred theories are well associated with current topic. Banks are the financial intermediaries that mobilize savings and help capital accumulation. Integrating poor into the mainstream by opening the account in formal financial institution provides an opportunity to grow rich, which also enhances their
consumption and productive capacity. Dynamics of intermediation can be seen through intervention of new markets, new products and new agents. The ICT revolution has brought radical changes in reducing information asymmetries and transaction costs.

2.3 Theoretical perspectives of the study

Finance has become an inseparable part of an economy. There is reciprocal relationship between financial system development and economic growth. Developed financial system boosts economic growth, while the growing economy’s demand helps to develop the financial sector. The earlier theories of development prominently highlighted the role of labour in the development process. With that they concentrated on, capital and institutional factors as the factors for growth. The pioneering literature on development did not comprise finance as a factor of growth. Earlier economists believed that finance is a comparatively insignificant factor for economic development. John Robinson (1952) argued that “where enterprise leads finance follows”. According to him, economic development creates demand for finance and the financial system acts in response to these demands. The collection of essays “pioneers of development” edited by Meier and Seers (1984) did not consider finance as an issue. Nobel Laureate Robert Lucas (1988) considers finance as an “over-stressed” key factor of economic augmentation. Weill (2005) in his undergraduate textbook on economic growth did not even discuss the link between finance and growth. The main reason for ignoring the association between finance and growth can be understood from the assumption that markets are perfect and there are no frictions as believed by the initial finance theories of Modigliani Miller Theorems and Efficient Market Hypothesis of Eugene Fama and Kenneth French.

But these theories were challenged in later development theories. Fed Governor, Frederick Mishkin in his JMCB-FDIC Lecture presented at the FDIC, Washington, D.C. on September 22, 2005 said that “The importance of finance to economic growth has also frequently been ignored by economists.” Fed Governor, Ben Bernanke (15 June,2007) said: “The blossoming of work on asymmetric information and principal-agent theory, led by Noble Laureates Joseph Stiglitz and George Akerlof and with contributions from many other researchers, gave economists the tools to think about the central role of financial markets in the real economy”.

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To improve productivity, during eighteenth century itself, Adam Smith (1776) in his book ‘Wealth of Nations’ argued in favour of division of labour and specialization. Specialization requires invention of better methods in the process of production. This clearly indicates the essential of financial support. Adam Smith observed that the development of Scottish economy owed to high density of banks in Scotland.

Joseph Schumpeter (1912) in the early twentieth century highlighted the technological innovation and their successful implementation. He considers finance as necessary factor of economic development. “The banker, therefore, is not so much primarily a middleman… He authorizes people in the name of society… (to innovate)”. According to him financial intermediaries provide the services of mobilization of savings, evaluation of projects, management of risks, smooth transactions which are essentials for technological innovation and economic development.

Sir John Hicks (1969) opines that development of financial system is very much required to avoid the gap between an innovation and its execution. He noticed that England’s industrial revolution owe to development of its capital market which has reduced liquidity risk.

Gold Smith (1969) in his study found that the value of assets of financial intermediaries increases as a share of economic output. He used the data from 35 Nations between 1860 and 1963. He showed that financial intermediaries size expands with the size of the economy and noticed positive association between financial development and economic development (Ross Levine, 2005).

2.3.1 Finance and Economic Growth:

Finance is most pertinent thing which ignites development process. Well-organized financial system is critical to channelize the funds to productive purposes and to allocate the risks to those who can best bear them. This facilitates economic growth and has positive impact on income distribution, poverty reduction and creation of opportunities. The impact of finance on growth, necessarily lead to two different effects (Mankiw, Romer, and Weil 1992) first on raising income levels of developing countries and the second on the impact on steady state growth rate in developed countries. Reducing financial market imperfections enhances opportunities and will
have positive impact in the economy. Walter Bagehot (1873) highlighted the role of finance in ushering industrialization in England by facilitating mobilization of capital. Gurley and Shaw (1955) also emphasized the close link between financial development and economic growth. “Specifically, countries with larger banks and more active stock markets grow faster over subsequent decades even after controlling for many other factors underlying economic growth. Industries and firms that rely heavily on external financing grow disproportionately faster in countries with well-developed banks and securities markets than in countries with poorly developed financial systems” (Levine, R., 1996). It is clear that economic growth and capital accumulation depends on financial development. Demetriades and Hussein 1996, Odedokun 1996 and Zingales, 2003, found evidence of the positive relationship between financial sector development and economic development over long periods. There is extensive empirical evidence which speaks of a significant and robust relationship between finance and growth. Researchers have explored the relation between financial sector growth with GDP per capita growth, productivity growth, poverty reduction and growth of firms. (Galor and Zeira, 1993; Rajan and Zingales, 1998; Beck, Levine and Loayza, 1999, Demirguc-Kunt and Levine, 2001). They discuss the significance of finance as the core of the development process through solid empirical evidence. Demirgüç-Kunt and Levine (2007) argued that there is clear evidence about the significant relationship between financial depth and growth. Financial depth has positive effects on small firms and poor households. The challenge in this direction is to make financial services available to all and thereby tapping the full potential in an economy.

2.3.2 Financial Sector Development, Income Inequality and Poverty Reduction:

The key objective of Financial Inclusion is to include poor people into mainstream economy and to strengthen them. Most of the theories claim that development of financial intermediaries will have an inexplicably favorable impact on the poor. A theoretical and empirical literature has shown the importance of a well-developed financial system for economic development and poverty alleviation (Beck, Levine and Loayza, 2000; Beck, Demirguc-Kunt and Levine, 2004). The researchers have shown that financial depth reduces income inequality and poverty. Previous development theories emphasized the need of wealth concentration and inequality in the initial stages of a country’s economic development. Kuznets (1955) assumes that
with increased inequality, economic growth will also increase, which later reduce inequality. The marginal propensity to save of rich people is high compared to poor people. This enhances productive efficiency but this also leads to a fundamental trade-off between efficiency and social justice. In later stages the benefits of growth reach the whole economy. Greenwood & Jovanovic (1990) explained the interconnection between finance and economic development. They explain the relationship between financial institutions growth and income inequality with the help of inverted U-shaped curve. Initially a small number of rich people have accounts in formal financial institutions and they play a major role in economic growth. With economic growth, a large number of people would join the formal financial system which positively affects economic growth. In the early stages of growth, the distributional effect of financial deepening is unfavorable for the poor, but beneficial after the turning point. The facts from developed countries supported the Kuznets hypothesis, but not in developing countries.

2.4 The Review of Literature

The Review of literature has vital relevance to gain extensive knowledge about the study area. That will be helpful for scientific interpretation leading to new insight and contribution. The topic of the present thesis is “Role of Lead Bank in Financial Inclusion”. For the sake of clarity and easy understanding thematic review of studies has been done.

Thematic Review:

Studies have been classified into the following categories.

- Studies relating to finance and economic Growth
- Studies relating to financial exclusion
- Studies relating to inclusive Growth
- Studies relating to financial inclusion
- Studies relating to bank intermediation to financial inclusion
- Studies relating to adoption of Innovative Methods through Technology
- Studies relating to Lead bank
2.4.1 Finance and Economic Growth:

Finance is the core of economic development. Initial literatures of economics do not consider finance as crucial for development. Earlier economists considered labour, capital and institutions as much more important factors by ignoring finance. (John Robinson, 1952, Weill, 2005, Robert Lucas, 1988). Later the importance of finance is well recognized and highlighted in the related studies.

Patrick Honohan (2004) discussed the causal link between finance and growth. In his study he contended that financial depth is negatively associated with headcount poverty even after taking account of mean income and inequality.

Rakesh Mohan (2006) established the significance of finance in growth process as “A developed financial system broadens access to funds; conversely, in an underdeveloped financial system, access to funds is limited and people are constrained by the availability of their own funds and have to resort to high cost informal sources such as money lenders. Lower the availability of funds and higher their cost, fewer would be the economic activities that can be financed and hence lower the resulting economic growth”.

Ayyagari et al. (2008) showed that lack of access to finance restricts the growth of firms significantly by using firm level data from 80 developed and developing countries around the world. The positive impact of financial inclusion is wide-spread across the globe.


Financial Development Report (2011) well documented the strong relationship between financial development and economic growth. Financial Development is measured by the factors such as size, depth, access, and efficiency and stability of financial system which includes its markets, intermediaries, and range of assets, institutions and regulations.

Oya Pinar Ardic, Maximilien Heimann and Nataliya Mylenko (2011) in their Cross-Country Analysis recognized the fact that measures of financial
development are strongly related to economic growth. The data was collected from 54 countries around the world with concern to Sub-Saharan African countries, both regulator and bank surveys. It is empirically proved that the access to financial services leads to improvement in living standards of people. Policy makers gave prime importance to financial inclusion in their policy agenda.

Other studies of King and Levine, 1993; Levine and Zervos, 1998; Rajan and Zingales, 1998; Demirguc-Kunt and Maksimovic, 1998; Jalilian and Kirkpatrick 2001; Beck et al., 2004; Klapper et al, 2006; Demirguc-Kunt and Levine, 2006, highlighted the importance of finance in economic development.

2.4.2 Financial Exclusion:

Financial exclusion excludes the poor people from mainstream financial system, results in poverty, inequality, backwardness, vulnerability, exploitation and so on. The following reviews provide necessary insight of the topic.

The Economist in its issue dated 19 October 1929 printed an article about financial exclusion highlighted the exclusion of poor in its observation that ‘the small man, living in the provinces, is neglected’.

Shylendra (1996) explained one of the important reasons of exclusion as the formal financial institutions do not provide credit without collateral. The collateral based lending policies of the formal agencies automatically exclude the poor who cannot produce tangible collateral.

Vaas (2007) elucidated that the reasons for the exclusion may stem from past history and culture of the society. It eventually leads to social problems such as widespread poverty, concerns of health, lack of education and illiteracy, unemployment and poor productivity. Financial exclusion thus is a systemic problem hampering sustainable development.

Thorsten Beck et al. (2008), using data from a survey of 91 banks in 45 countries in their paper, explains the causes and consequences of financial exclusion which limits their opportunities and leading to income inequalities.

Anshul Agarwal (2010) in 23rd Skoch Summit, spoke about the Challenges to implementation of financial inclusion like large area, cost of small value
transactions, weak delivery model, unsuitable products, infrastructure, lack of finances, management support have to be effectively dealt with.

**Atiur Rahman** (2013) supported the argument that financial exclusion is a key element of social inclusion. According to him financial and social exclusion is mainly because of poverty related deprivations in health, education and asset ownership which blocks access to employment, income and borrowing options.

### 2.4.3 Inclusive Growth:

To achieve participatory development and to reduce income inequalities and regional disparities the concept inclusive growth gained importance.

**Ranjan and Zingalas** (2004) gave suggestion to the challenge of achieving more inclusive growth. According to them encouraging policies facilitate easy and affordable financial services to public.

**Prahlad C. K.** (2005) highlighted the necessity of including the poor who have the potential to contribute in the development process by saying that “if we stop thinking of the poor as victims or as a burden, and start recognizing them as resilient and creative entrepreneurs and value concisions consumers, a whole world of opportunity will open up”.

**Rahul Anand, Saurabh Mishra, and Shanaka J. Peiris** (2013) tried to estimate inclusive growth of economies by integrating economic performance and outcomes of income distribution. For this they use GDP per capita, purchasing power parity and distribution of income. For this they use social mobility function. Through this they found economic stability at macro level, appropriate structural changes, and human capital are the basics to achieve inclusive growth.

Inclusive growth is to include hitherto excluded people into the main stream economy to uplift them from chronic poverty and huge disparity. A large amount of literature (Levine, 1998; Beck; Deininger and Squire, 1998; White and Anderson, 2001; Ravallion, 2001; Demirguc-Kunt and Levine, 2007; Amit K. Bhandari, 2009) also revealed positive effect of inclusiveness.

### 2.4.4 Financial inclusion:

Financial Inclusion is the main theme of the current study. Elaborate review related to this topic show various dimensions of study. To achieve inclusive growth
financial inclusion is an effective tool which provides an opportunity to deprived section of people enter into the mainstream economy.

Animambal Subbarao Pai, the founder, Canara Bank noticed “A good bank is not only the financial heart of the community but also has an obligation of helping in every possible manner to improve the economic condition of the common people”. In this comment he underlines the responsibility of banks to society.

Review of few definitions helps us to comprehend the meaning of financial inclusion.

Beck & De la Torre, (2006) label “financial inclusion should signify access to a range of different financial services, the percentage of people in a given area with access to a bank account is the typical measuring stick for breadth of financial services”. This definition draws attention to have bank account, as initial step to financial inclusion. Rangarajan Committee (2008), “Financial Inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups at an affordable cost”. This definition emphasize on providing credit and other financial services to susceptible people through financial inclusion. Transact, the national forum for financial inclusion (2007) found financial inclusion as a state in which all people have accesses to appropriate financial products and services in order to manage their money effectively. It can be achieved by financial literacy and financial capability.

Financial inclusion has utmost importance to include marginalized into the mainstream economy to achieve inclusive development. Review of few studies in this regard makes possible us to understand the significance of the concept.

Gundannavar, V. R., et al. (1991) emphasized the role of banks in implementing social banking. He strongly argued in favour of resource allocation to priority sector to meet social obligation and argued for concessional rate of lending to priority sectors should continue.

NABARD (1999) in its report stated that the banks have wide network of rural bank branches and through them specific poverty alleviation and self employment programmes can be implemented to help a very large number of poorest of the poor who remain outside the fold of formal banking systems.
**Eastwood and Kohli** (1999) by using firm level data, noticed improvement in small scale industrial output owing to well-functioning financial system which channelize funds to productive uses. Financial intermediaries generate better information, better resource allocation, and promote growth.

UN Secretary General **Kofi Annan** (29 Dec, 2003) remarked that “The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together we can and must build inclusive financial sectors that help people improve their lives”.


**Beck, Demirguc-Kunt & Peria** (2006) approved the view related to the importance of formal financial system by noticing that access to financial services help poor people to get secure saving facility, reduce income inequalities and face economic shocks confidently.

**Littefield et al** (2006) explained the benefits of bank accounts to deprived section of people. Safe deposit, access to credit, payment and transfer facility help the poor access different banking services which improve the living condition of them.

**Beck, Thorsten & Demirguc-Kunt, Asli & Levine, Ross** (2007) in their article "Finance, inequality, and poor: cross-country evidence" have find the positive impact of financial inclusion which led to reduction of poverty and income inequality

**Honohan** (2008) in his empirical study for more than 160 countries finds the close relation between number and usage of banking and MFI accounts and reduction in poverty and income inequality.

**Vighneswara Swamy and Vijayalakshmi** (2009) established the fact that financial development is extremely important for overall economic development of a country. According to them financial (banking) development creates favourable situation to economic development by including hitherto excluded people into banking purview and also by providing easy affordable credit and other related
banking services to them. This will create equal opportunities to deprived sections and integrate them into the mainstream economy.

Dupas and Robinson (2009) noticed that smooth consumption, productive investment and health access is possible through access and use to formal savings services.

The present President of India and ex-finance minister Pranab Mukherjee (2010) in his speech asserted financial inclusion is a key determinant of sustainable and inclusive growth which could unlock the vast hidden potential savings, consumption and investment propensities of the poorest section of society.

Rajdeep Sahrawat (2011) explained nexus of financial inclusion and economic growth discussed about access to credit. According to him easy and affordable credit by the disadvantaged social groups is acknowledged as a key criterion for poverty alleviation and reducing social inequity.

Rama Pal and Rupayan Pal (2012) in their study analyzed income related inequality in financial inclusion using a representative household level survey data and noticed enhanced financial inclusion with increased availability and access of banking services.

The Confederation of Indian Industry (CII) and the Boston Consulting Group (BCG) Report (2013) for India-New Horizons, New Opportunities, based on a nation–wide survey covering around 12,000 customers to assess the requirement of people in terms of credit. It highlights the fact that financial inclusion is not only an obligation but also an opportunity to banks to expand business as it expands the base of customers.

Measurement of financial inclusion using relevant indicators helps to understand the reach banking services to common people.

Mandira Sharma (2010) in the paper titled “Index of Financial Inclusion” emphasized about most commonly used indicators like number of bank accounts (per 1000 adult population), number of bank branches (per million people), number of ATMs (per million people), amount of bank credit and amount of bank deposit to construct the Index.
Chattopadhyay, Sadhan (2011) observed that at aggregate level, the common measure of financial inclusion is through the number of bank account per adult, geographic branch penetration, demographic branch penetration, geographic ATM penetration, demographic ATM penetration, demographic deposit penetration, demographic credit penetration, deposit income ratio, credit income ratio and cash deposit ratio.

Adoption of innovative methods through technology changes the course of action of banks in providing banking services to people in need. Review of relating studies emphasize the significance of technology in augmenting financial inclusion.

Chidambaram P (2008) remarked that “Financial Inclusion is critical to achieve inclusive growth which itself is a sin qua non for sustainable economic growth and development. Harnessing the power of technology is one of the most effective ways of integrating the unbanked population into the financial mainstream. Technology enables the provision of a host of services from depositing money into various government schemes to micro loans and micro insurance”.

Laveesh Bhandari and Sumitha Kale (2008) highlighted the role of technology in reducing cost of transactions and help in providing banking services efficiently.

Jatinder Handoo (2010) reviewed the financial inclusion through branchless models owe to recent technology across the world and examined how the people at bottom of the pyramid able to get access to financial services. The paper highlighted various technology led measures of financial inclusion mainly branchless models to reach the needy people.

Chakrabarthy, K.C. (2010) remarked that “the traditional bank branch delivery model is not able to cater to the needs of all and way forward to financial inclusions as an ‘ICT’ (Information and Communication Technology) based delivery model”. He highlighted the advantage of BC model for added financial penetration by using Smart Cards with biometric identification.

Mihasonirina Andrianaivo and Kangni Kpodar (2011) explained the importance of mobile banking for developing countries which enhances the reach of financial services by reducing the transaction costs. With the help of ICT, banks can better assess the credit worthiness of depositors which help for efficient allocation of
Therefore application of ICT and mobile banking improve access and use of bank products which sequentially boost financial inclusion.

**Wolfgang Fengler et al** (2011) advocated for mobile money. In India access to basic financial services is the major obstacle to economic growth and reduction of poverty. In this connection cell phones are the better instruments used for bank transactions. Mobile banking is very much useful in the situation of inadequate physical infrastructure. This was successfully implemented in Kenya.

**Dittus and Michael Klein** (2011) emphasized the development of Information and Communication technology in opening up the opportunity for providing essential financial services to most people spreading across the world. The paper describes M-PESA in Kenya as commercially viable initiative in more detail.

**Reserve Bank** (2011) in its report on ‘Trend and Progress of Banking in India’ 2010-11, narrated the growth of Indian banking sector through technology upgradation and staff restructuring in last two decades. It has achieved international standard in productivity and efficiency indicators. Reduction in net interest margin, priority sector lending, mandated social sector obligations, anti-poverty initiatives are the steps taken by banks to sustain high and inclusive growth.

**Asli Demirgüç-Kunt and Leora Klapper** (2012) assessed financial inclusion situation of African countries. In many African countries they found that access to more financial services, especially credit provided to individuals and enterprises transformed the life of common people. Similarly, they noticed new technologies such as mobile money help to broaden access to financial services, including savings and payment products.

### 2.4.5 Lead Bank and Financial inclusion:

**Bhatt V.V.** (1970) in his article affirmed that the lead bank scheme provides a supporting setup to banks to promote agriculture and small industries in each district. According to him Lead Bank should help to get necessary credit and technical guidance to improve the situation of priority sectors.

**Usha Thorat** (2007), Deputy Governor, RBI at HMT-DFID “Financial Inclusion Conference” at Whitehall palace, London explained the strategies for financial inclusion through Lead Bank system. With the help of different fora at state and district level like ‘State Level Bankers Committee”, “District Level Committee”,
under Lead Bank scheme commercial banks with Regional Rural Banks and Co-Operative Banks trying to augment financial inclusion different approach for better access and usage of formal institutions.

**Das V. S. (2008),** affirmed the social responsibility of banks to provide as safe repositories of public deposits, suppliers of credit to individuals and institutions to support enterprise and augment economic development. He observed Lead Bank Scheme was formulated as a model for facilitation of economic development through the banking system which led to phenomenal growth in bank branches and their outreach, greater emphasis on lending to the priority sectors, schemes for alleviating poverty, impressive growth in microfinance, etc.

**Sundaran and Manoharan (2012)** in their article “Performance of the Lead Bank Scheme in Virudhu nagar in Tamil Nadu” observed that the Lead bank scheme was implemented to meet the credit requirement of development plans of the district. It draws annual credit plans for the district to achieve the targets fixed in different sectors. To reduce the regional imbalances it identifies the unbanked areas in the district and takes actions to improve the situation.

**Meena B. L. (2012)** in the house magazine “The Leader”, State Bank of Bikaneer and Jaipur expressed that “the lead bank role is to act as a consortium leader for coordinating the efforts of all credit institutions in each of the allotted districts for expansion of branch banking facilities and for meeting the credit needs of the rural economy”.

**Subba Rao D (2013)** stated that extension of Lead Bank Scheme(LBS) to unbanked urban areas include excluded segment of urban poor into the banking fold with the intension of providing formal financial services through implementation of direct benefit transfer scheme of the government and facilitating door step banking to the excluded segment of urban unbanked poor people.

### 2.5 Research Gap

Based on the reviews, the study comprehends that financial inclusion through banks, is important not only for financial sector development but also a prerequisite for economic growth and poverty alleviation. Financial inclusion as a policy measure addresses the issue of poverty, unemployment and inequality which strengthen the poor and marginalized people by offering them the tailored financial products and
services. This is the new area of research interest. Bank led model is widely accepted in India as it is transparent, more penetrated, convenient and easily reachable. Many studies on financial inclusion through banking system is available but regarding the role of Lead Bank in financial inclusion, till date no elaborate study was conducted. Further, no detailed study has been conducted to study both supply and demand sides of financial inclusion. The present study intends to reveal the role of banks and Lead Bank in extending financial inclusion from the supply side. On the other hand, from the demand side the study intends to test the efficacy of financial inclusion on economic, social and general conditions of the Basic Savings Deposit Account holders in the district after financial inclusion.