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KERALA - A MODEL STATE FOR FINANCIAL INCLUSION IN INDIA

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ABSTRACT
Financial inclusion is really a system of bringing the people into the main stream of financial behaviour for facing their day-to-day requirements. In Kerala there are many plans and programs adopted by the government to build a strong Financial Inclusion across the states. This is a conceptual study, fundamentally aims to analyse such plans & programs and to arrive at a conclusion about its efficiency as regards its implementation. This research work is also attempts to examine the position of Kerala in terms of overall financial inclusion efforts of India.
KEY WORDS – *Financial Inclusion, Financial Exclusion, Financial Inclusion strategies.*

1.1 INTRODUCTION

Inclusive growth is an ideal development process on the foundations of equity and justice. It seeks to strengthen the divisions in the society. The access to finance by the poor is recognized as a pre requisite for poverty eradication. In India, growth with equity has been the pivotal objective right from the starting of the planning process.

Financial Inclusion expands the resource base of the financial system by developing a culture of savings among large category of rural population and establish its own role in the process of economic development. Financial inclusion in Indian context implies the provision of affordable financial services to those who tend to be excluded or people who have facing financial exclusion.

1.2 REVIEW OF LITERATURE

Anurag et al. (2015) examined that access to financial service, remittances and insurance are very crucial for removing poverty. For attain the goal of 100% financial inclusion, policy makers, banks, Micro Finance Institutions, Non Governmental Organisations and regulators have to join their hands together. Financial inclusion is an entry for achieving inclusive growth in India. Selvakumar et al. (2015) have found the people in rural areas have only average awareness on the banking services. The majority of the people in India are living in rural area. Hence for the overall development of the economy rural upliftment is inevitable. Deepali (2014) has examined that larger financial access combined with financial education creates financially responsible citizens. Shabnamol (2014) has highlighted that financial inclusion is largely focused on the poor who do not have main stream of financial institutional support. Financial Inclusion Index is actually reflected that Kerala is highly on formal financial inclusion such as banking network penetration, availability of banking services and usage of the banking network. The service at the door of the rural households by the banks are actually converts them to borrow from the formal sector. Vinson (2014) has found that in 2011 Kerala made an important achievement; its banking sector became the first in India to achieve 100% financial inclusion. Canara Bank, convener bank of the State Level Banker's Committee, and other supporting banks identified 127 villages with no banking channels for a specified inclusion drive. Rendering of credit and insurance facilities are also required for better financial inclusion. Anupama et al. (2013) in their research work found that for inclusive growth of India, financial inclusion is possessing a key role and it also founds that just opening a *no-frill account* is not enough for financial inclusion, rather it has to manipulate properly in their daily lives. Sreedevi Gopalakrishnan (2022) found that MGNREGS-linked bank accounts, SHG participation, and high literacy have contributed to robust inclusion outcomes in Kerala. Yuvasubramaniyan et al. (2025) observed that attaining meaningful or real inclusion needs more than just start a bank accounts, it needs continuous and consistent engagement through community related financial education, culturally tailored outreach programs etc.

1.3 OBJECTIVES

1. To analyse various programmes for accomplishing Financial Inclusion in Kerala
2. To examine the position of Kerala in terms of Financial Inclusion in Indian scenario

1.4 RESEARCH METHODOLOGY

This is a conceptual study in nature and is based on secondary sources of information. It primarily depends on published reports, government documents, policy papers, and data from reputed financial institutions to examine the different financial inclusion plans and programmes implemented in Kerala. The research adopts an analytical approach to evaluate the effectiveness and efficiency of these efforts and to realise Kerala's position in Indian scenario of financial inclusion. The study mainly concentrates on interpreting available concerned literature and policies rather than employing empirical or field-based investigations.

1.5 FLAGSHIP FINANCIAL INCLUSION PROGRAMS IN KERALA

Kerala's literacy rates are very high, very big cooperative banking network and decentralized governance have provided robust platform for financial inclusion (NABARD, 2022). MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme) payments, which transfers into workers' accounts were decisive in universalizing access to bank accounts (Mullapally, 2014)

The Kerala government's latest financial inclusion plans are basically directed by the *Extreme Poverty Eradication Programme (EPEP)* and are built upon the strong base of its *cooperative banking network and the Kudumbashree Mission.* These two are the main supporting system of financial inclusion in Kerala.

In November 2025, Kerala planned to officially declare itself the first state in India to eradicate extreme poverty. The following are the major financial inclusion drives done by the government;

1.5.1 Extreme Poverty Eradication Programme (EPEP)

a) Identification and micro-planning: The state's most determined recent program began in 2021 with the identification of 64,006 families living in extreme poverty. Each family was provided a very customised micro-plan to address its specific needs related to food, housing and livelihood.

b) Targeted interventions: In October 2025, the government has reinforced 59,277 families identified as extremely poor through a range of interventions. This includes giving daily meals, securing housing etc.

c) Livelihood support: The program helps families to establish bearable livelihoods through tailored income-generating programs.

1.5.2 Leveraging Kudumbashree

a) Women's empowerment: The Kudumbashree Mission, a state-run women centred network, continues to be a foundation of financial inclusion. It organizes women into Neighbourhood Groups i.e. *ayalkootam* (NHGs) and provides them with savings, microcredit and enterprising exposures.

b) Credit and enterprises: Kudumbashree is very important in providing financial services and promoting enterprises preferably in rural population, where it plays a decisive role in delivering financial and community development drives.

c) Transgender inclusion: Kudumbashree also includes marginalized groups by forming special NHGs for the transgender community, providing them an entry to a systematic livelihood.

1.5.3 Digital and rural initiatives

a) Digital financial literacy: State has launched a Digital Financial Literacy drive to ensure inclusivity in its digitally enriched society. It uses Akshaya Centres, Student Groups, and Kudumbashree system to educate citizens on using digital devices for financial and government transactions.

b) Last-mile delivery: Latest studies acknowledge Kudumbashree and the large cooperative banking network for providing excellent banking access. However, the state continues to expand last-mile delivery services through banking correspondents and digital kiosks to address the gap of access in this regard.

c) Expansion of services: Just opening an account is not suffice for financial inclusion activities. Efforts are channelising to simply opening bank accounts to a more comprehensive financial empowerment model. This includes improving knowledge of products beyond basic savings method like insurance and pension plans, and to motivate them to go beyond in their daily financial lives.

1.5.4 Support for specific sections and sectors

a) LIFE Mission: This is a highly beneficial and conducive tool for supporting the people who are living in the bottom of the pyramid in Kerala. *Livelihood Inclusion and Financial Empowerment (LIFE)* Mission continues its work to provide safe housing to the landless and homeless people living in Kerala.. This basic need support helps integrate marginalized families into the formal stream of economy.

b) Entrepreneurship and startups: The Kerala Startup Mission offers financial supports via its Seed Support scheme to enrich technology-centred startups. This provides loans with low interest rates to stimulate the economy of Kerala. This is really a great support for the people who have innovative business idea but have no capital to actualise the theme. It also act as a major tool for financial inclusion and economy development.

c) Loans and subsidies: Kerala extends various financial support schemes, including loans without asset security for entrepreneurs who have gained or created work orders from the government. It also offers interest subsidies and other financial scaffolding through the Department of Cooperation for credit cooperatives and farmers.

1.5.5 MGNREGA

There are 22.94 Lakhs active workers are registered in terms of MGNREA in Kerala as on 29th October 2025. Average wage rate per day per person registered is Rs. 344.24 as on 31/03/2025 and it is directly credited to their bank account. Total 5,19,619 households have completed 100 days of wage employment during the end of 2025 fiscal. This scheme has actually acted as an important instrument for facilitating Financial Inclusion in Kerala.

1.5.6 Micro Finance Institutions in Kerala

Microfinance is the 'provision of a broad range of client-responsive financial services to poor people through a wide variety of institutions' (Norad 2003). They are generally considered to be an ideal instrument for bringing the rural poor out of poverty and enrich them both domestically and in the larger society. It helps in achieving the goals of financial inclusion. An integrated approach to microfinance has four types of impact on poor communities - economic, political, social and cultural.

Government sources for microfinance statistics in Kerala include the Kudumbashree Mission, the Kerala State Planning Board, and the Local Self Government Department (LSGD). Kudumbashree is the central driver for microfinance in the state, with its extensive network of women's self-help groups (SHGs)

As of 31 March 2025, Kudumbashree has 1,070 CDS (Community Developments Society, 19,470 ADS (Area Development Society) and 3,17,724 NHGs (Neighbourhood Groups) Kerala's 48 lakh women community network, which is spread across Kerala.

In 2012, Kudumbashree was recognized as a National Resource Organisation (NRO) by Ministry of Rural Development (MoRD), Government of India, under the National Rural Livelihood Mission (NRLM) to provide support to other States in their poverty eradication

1.5.7 FI@ School

FI@ School is a novel financial literacy project by Kerala Gramin Bank (KGB) targeted at school children. In association with Child and Youth Finance International, Amsterdam and NABARD, the project was launched on 23rd January 2017 in Kochi.

Branches of KGB enrolled schools in their locality to impart financial education and to carry out various financial literacy activities. *Under the project KGB has imparted financial literacy to more than 60000 children and opened more than 30000 Savings Bank accounts.*

FI@School is an umbrella programme comprises of various financial literacy and financial inclusion activities such as financial literacy classes, account opening camps, formation of financial literacy clubs, financial literacy related competitions etc. It is considered as the best project of financial literacy in any bank of our country.

1.6 Position of Kerala in terms of Financial Inclusion in Indian scenario

1.6.1 Strategies for Financial Inclusion in India

To attain the vision of banking for all and reap the benefit of multiplier effect in economic output, poverty and income inequality, the government has launched multiple strategies focusing on supply & demand side infrastructure and financial literacy. The *National Strategy for Financial Inclusion 2019-2024 (NSFI) and National Strategy for Financial Education 2020-2025 (NSFE)* provide a road map for a coordinated approach for this.

a) National Strategy for Financial Inclusion 2019-2024 (NSFI)

National Strategy for Financial Inclusion was launched in 2019 to address the intrinsic limitations to access the financial services, with certain well defined objectives like universal access of banking, financial literacy etc.

b) National Strategy for Financial Education 2020-2025 (NSFE)

Financial literacy enrich the users to make strong financial decisions which result in financial well-being of the individuals. In India, the beneficiaries which involves, Central and State government, financial sector regulators, financial institutions, civil societies etc. National Strategy for Financial Education make sure that the work of different stakeholders is aligned and developmental in its nature.

In order to achieve the concerned targets, the NSFE laid down ***"5-C Approach"*** which includes development of relevant *Content* (including Curriculum in schools, colleges and training establishments), developing Capacity among the intermediaries seriously participated in providing financial services, leveraging on the positive effect of *Community*-driven model for financial literacy through apt *Communication* strategy and enhancing *Collaboration* among different stakeholders in this regard.

Direct Out put of NSFI AND NSFE (An evidence)
As a results of the above mentioned initiatives the Financial Inclusion Index of India risen to 67 in 2025, up by 24.3% since 2021. Along with this 55.98 crore beneficiaries are there in the revolutionary Pradhan Mantri Jan Dhan Yojana. Within a short span of one month, 6.65 Lakhs accounts opened for Saturation of Financial Inclusion Schemes

1.6.2 FI-Index

The Reserve Bank of India has announced that the Financial Inclusion Index (FI-Index) has risen to 64.2 in March 2024, up from 60.1 in March 2023, indicating a significant progress in financial inclusion across the country.
a) FI-Index is a comprehensive measure of financial inclusion, ranging from '0' to '100', with '0' representing complete financial exclusion and '100' indicating full financial inclusion. Timeline of publishing this index is annually.

b) This index comprises of three major parameters: *Access* (35%), *Usage* (45%), and *Quality* (20%). The index is basing upon 97 indicators which comprehensively covers *banking, investments, insurance, postal services, and pensions.* This five services are the major things concerned with the general public living in India in their daily life sphere.

c) It has been made or developed without a base year, reflecting the cumulative efforts of all stakeholders or beneficiaries to financial inclusion over the years.

1.6.3 Kerala – Rating in Indian Financial Inclusion efforts

Kerala ranks among the top states in India for financial inclusion, often cited as a good leader alongside states like Goa and Tamil Nadu. Its top rank is actually accredited to creative and people centred government initiatives like Kudumbashree, high literacy rates and Kerala's grass rooted social security and pension programmes, which actually uplifts banking penetration and usage. Recent reports also place Kerala in its highly specific metrics like women's financial freedom and a comprehensive financial inclusion scores.

Key Rankings Parameters
a) High overall financial inclusion: Studies consistently place Kerala among the top states for financial inclusion, using indices that measure availability, penetration, and usage of financial services.

b) Robust government initiatives: The state's high performance is linked to government programs like FI@School and its comprehensive social security pension schemes.

c) High literacy and human development: Kerala's high literacy rates and human development index (HDI) contribute to its citizens' greater awareness and ability to employ financial services.

d) High rate of women's financial independence: A NITI Aayog report actually depicts that Kerala's high rate of financial inclusion among women, rather than its smaller population size, which shows a high penetration rate.

e) Near-universal financial inclusion: As these factors are very strong and systematic or consistent, Kerala is often seen as achieving *near-universal financial inclusion*, particularly in rural areas.

1.7 CONCLUSION

To put it briefly, financial inclusion in Kerala substantiates a model of inclusive growth cemented by equity, literacy, and community engagement. Kerala's progress is led by strong institutional support, including the Kudumbashree Mission, Co-operative banking system and goal centred government programmes like the *Extreme Poverty Eradication Programme (EPEP)* and *FI@School.* These programmes have ensured access to banking, credit, insurance, and financial literacy among the poor and marginalised people living in Kerala. It paves the way for *banking of unbanked,* the real sense of Financial Inclusion. Kerala's achievement story depicts how social empowerment, digital initiatives, and decentralized governance can bundle together for facilitating financial inclusion. As a result of the endeavour taken by Kerala Government, it proudly stands as a leading example in

India's journey toward equitable and sustainable financial development. Let us conclude with the famous quote of Mahatma Gandhi: "Poverty is the worst form of violence." It must be eradicated by all ways.

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