



A Peer Reviewed International Journal of Asian
Research Consortium

AJRBF:
**ASIAN JOURNAL OF
RESEARCH IN BANKING
AND FINANCE**



EXPANDING OUTLINE OF BANKING SECTOR TO RURAL INDIA

T. S. SHIBIN*; MAHESH R. PRAJAPATI**; YOGESH A. LAD***

*Assistant Professor,
International Agri-Business Management Institute,
Anand Agricultural University,
Anand, Gujarat, India.

**Assistant Professor,
International Agri-Business Management Institute,
Anand Agricultural University,
Anand, Gujarat, India.

***Assistant Professor,
International Agri-Business Management Institute,
Anand Agricultural University,
Anand, Gujarat, India.

ABSTRACT

Majority of the population of the country resides in rural India. Indian Banks are very much reluctant to reach and serve the rural people. Reasons for this are lack of awareness, low incomes/assets and illiteracy among the rural population. Being a commercial entity, all banks in India prefer to deal in any financial activities which are profitable to them. Banks feel costlier to reach the remote places through brick and mortar branches to serve the rural people. A transformation through technology in the banking sector is required for the financial inclusion of all the individual of India. This review paper is an effort to identify the best possible way to increase the reach of banking sector in rural India.

KEYWORDS: Indian Banking, Rural, Technology, Financial Inclusion, Revolutionize.



INTRODUCTION

India is considered to be the country of villages. Country has 6,40,867 villages, which comprises 69% of total population (Census 2011). Majority of the people in the village earn their livelihood through agriculture in India. Population of rural India has increased by more than 12% during the decade 2001-11 (Census 2011). Since the land available to each family has remained the same and the number of family members has grown, supporting all of them through agriculture alone is becoming difficult. This led to migration of rural population to towns and cities in search of jobs or to indulge in other occupations at the same place along with agriculture, may be as secondary source of income. The government is also addressing these problems by taking steps to make better farming techniques available to increase crop production from the same piece of land, and also making other opportunities of employment and livelihood available close to or within the villages itself.

Overall, with the need of time, rural income is increasing, which directly or indirectly increases the requirement of financial services. As per the Economic Survey report 2010-11, in rural India, around 42 per cent of savings are held as cash. This leads to a huge amount of cash kept unproductive and dormant into circulation. Once people are financially included, the total effective money supply in the economy goes up. In order to achieve such inclusion, the reach of Indian banking sector should be expanded to enable the poor to keep their savings in interest earning accounts.

POPULATION GROWTH AND BANKING IN RURAL INDIA

The population of India has shown the increase of 17.64% in absolute term from the year 2001 to 2011. This growth is highest after china in the world. Level of urbanization increased from 27.81% in 2001 Census to 31.80% in 2011 Census. This is the first time since Independence that the absolute increase in population is more in urban areas compared to rural areas.

COMPARATIVE TABLE FOR CENSUS YEAR 2001 AND 2011

Particulars	Urban	Rural	Total
Year- 2011	37,71,05,760	83,30,87,622	121,01,93,422
Year- 2001	28,61,19,689	74,26,17,747	1,028,737,436
Percentage Change (%)	31.80	12.18	17.64

Source:- Census India 2011



GROWTH RATE OF POPULATION

	1991-2001 (Percentage)	2001-2011 (Percentage)	Difference (Percentage)
India	21.5	17.64	-3.86
Rural	18.1	12.18	-5.92
Urban	31.5	31.80	+ 0.3

Source: - Census India 2011

The slowing down of the overall growth rate of population is due to the sharp decline in the growth rate in rural area, while the growth rate in urban area remains almost the same. The reason might be like migration of rural population to urban places in search of livelihood. Still the rural population is approximately 69% of the total population, which is large share in itself. Being agriculture based nation and majority of the farmers are from the rural area of India, it is very important to consider the resources available to them, in which financial resource has a major stake. The apex bank of India and government has taken various steps to induce the banking as well as other financial sectors for including the people who live in rural areas or urban slums, have stressed livelihoods, and seek the support of the state to stabilize their livelihoods and finances. But, still the ground reality is that many banks do not seek out poor people as customers, either because they are not profitable in improving their operational and financial performance.

Reserve Bank of India (RBI) being an apex bank of India gives various directives to fortify the financial system in rural part of the India. Some of the steps taken by Reserve Bank of India are as under;

1. As per the Monetary Policy Statement – April 2011, all banks have been mandated to allocate at least 25 per cent of the total number of branches to be opened during a year in unbanked rural centres.
2. All banks were advised to put in place and submit to RBI, a Board approved three years (March 2011, 2012 & 2013) Financial Inclusion Plan (FIP) mentioning self-determined targets in respect of rural brick and mortar branches to be opened, business correspondents (BC) to be employed, coverage of unbanked villages, no-frill accounts opened, Kisan Credit Cards (KCC) and General Credit Cards (GCC) to be given etc.
3. The KYC norms have been simplified for the small accounts opening. Job card issued by NREGA and AADHAAR number have started considered as address and Id proof.
4. To address the issue of uneven spread of Bank branches, since December 2009, domestic scheduled commercial banks are permitted to freely open branches in Tier 3 to Tier 6 centres with population of less than 50,000 under general permission, subject to reporting. In the North Eastern States and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi urban and urban centres without the need to take permission from Reserve Bank in each case, subject to reporting.



5. In January 2006, the Reserve Bank permitted banks to engage business facilitator and Business Correspondent (BC) as intermediaries for providing financial and banking services. The BC model allows banks to provide door step delivery of services especially 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem.

The above efforts by Reserve Bank of India has forced all banks in India to take appropriate action as per the norms to widen the reach of their operation to the remotest and rural non banking areas of the country. This has resulted that, banks have covered around 1.07 lakh villages till June 2011 from 54 thousand as on March 2010. This includes brick & Mortar branches at 22,870 villages, business correspondent (BC) outlets at 84,274 villages and 460 villages through other modes like mobile vans, etc. by June 2011.

Sr. No.	Particulars	Mar 10	Mar 11	June 11
1	Villages Covered - Grand Total (2+3+4 = 5+6)	54258	100183	107604
2	Villages Covered - Total Branches	21475	22662	22870
3	Villages Covered - Total BCs	32684	77138	84274
4	Villages Covered - Total Other Modes	99	383	460
5	Villages Covered >2000	27353	54246	59640
6	Villages Covered <2000	26905	45937	47964
7	Urban Locations covered through BCs	433	3757	4524
8	No Frill A/Cs (No. in Lakh)	493.27	739.36	790.86
9	Amount in No Frill A/Cs (Amt in Crore)	4257.07	5702.94	5944.73
10	No Frill A/Cs with OD (No. in Lakh)	1.31	6.32	9.34
11	No Frill A/Cs with OD (Amt In Crore)	8.34	21.48	37.42
12	KCCs-Total-No. in Lakh	176.30	201.91	202.89
13	KCCs-Total-Amt In Crore	98749.5	132352.3	136122.3
14	GCC-Total-No. in Lakh	4.73	10.83	10.70
15	GCC-Total-Amt In Crore	753.49	2328.36	2356.25
16	ICT Based A/Cs-through BCs (No. in Lakh)	125.42	295.41	338.36
17	EBT A/Cs-through BCs (No. in Lakh)	74.81	146.51	164.60

Source: RBI Monthly Bulletin November 2011

In India, as per the data revealed by Smt. Usha Thorat, Deputy Governor (RBI) at the HMT-DFID Financial Inclusion Conference 2007, UK, about 41% of the Indian adult is not having bank account. In rural area banking access is only 39% against the 60% in urban areas. As per the census of India, the total Indian rural population in the year 2011 is around 83,30,87,622 and total rural bank branches (Statistical table relating to banks in India 2011-12, RBI) for the same year is around 33,863. This reflects the average population per bank branch is around 24,600 persons in rural area of the country. It indicates that there are many villages in the country, which don't have bank branches. This may be the ultimate reason for having very low accessibility of Indian population in the financial system.



PERSPECTIVE OF BANKERS

Banks play a significant role in the growth of economy of any country. A bank is a financial institution, which provides fundamental banking services such as accepting deposits and providing loans. As any other business, the activities of all banks revolve around the profit maximization through creating value. This is the reason that banks have gone beyond the definition of banking by involving themselves in marketing and selling third party products like insurance and mutual fund, which generates huge income for them. As per the IRDA annual report 2011-12, banks in India as a corporate agents have fetched the insurance premium (nonlife) of Rs 3,273 crore, which is 5.64% of total premium (57,967 crore) received in the sector. This share increases to 11.25% of the total premium received in case of life insurance in the year 2011-12. Banks have contributed 36.08% in private insurers' premium collection in the industry as a corporate agent and for LIC's premium collection, banks contribution is only 1.51%. The main reason behind this is that almost all the banks are mainly associated with private insurance companies and LIC does their most of the business through insurance agents and direct selling.

This indicates the aggressiveness of banks with concern to increase the share of profit through third party products. Banks and other financial sectors are very much interested to strengthen their financial position. This intention of the banking enterprise cannot be negated as one of the aspects of any commercial entity in the business world is to strengthen their financial performance so as to remain sustainable in the market and win the confidence of their stakeholders. If discussed about the rural population, banks do not find the prospects in terms of profitability. Rural populations have lack of awareness, low incomes/assets as well as social exclusion. Illiteracy among the rural population has created major problem, which makes them to keep 42 per cent of their savings held as cash (Economic Survey report 2010-11). From the supply side, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes are common reasons for exclusion of rural people from the financial system (Thorat, 2007).

As per the census 2011, the scenario has shown a shift, as the literacy rate in rural India has increased from 58.74% in 2001 to 68.91% in 2011. This shows a positive indication that, change may happen in the coming future with concern to the financial inclusion for the rural population of India, if issue is properly addressed with some new ways are identified for the purpose.

KEY TO REVOLUTIONIZE RURAL BANKING

Technology has become the way of life in all the business sectors and even more in banking. Presently, banks are massively using technology across many areas, which definitely helped the bankers to control cost, increase the choices to conduct transactions by the customers, as well as the ease and convenience of banking in all aspects. Technology breaks all restrictions with regard to the remoteness for the banking services. Considering, in terms of cost and revenue involved, extending branch networks is not feasible for all banks, but the development of appropriate technologies can provide one answer to this problem. Recent years have seen



banking industry swiftly moving towards a “click and brick” strategy that emphasizes an online supplement to the conventional banking services.

Rangarajan Committee Report (Committee on Financial Inclusion) 2008 has proposed an innovative programme “Swabhimaan” to take banks to the doorstep of the rural people instead of the later having to go in search of banks. The idea is to have business correspondents, or bank saathis, (who may be the local merchant) armed with electronic hand-held devices, which can recognize the bio-markers of bank customers. The customers can deposit and withdraw money directly from the bank saathi, without having to travel long distances to get to the nearest brick and mortar bank branch. The programme will be making use of AADHAAR which will make it possible for individuals to establish their identities in any part of India.

As per RBI, there has been about 30% year-on-year growth in the number of ATMs deployed in the country since 2008. Even RBI came out with guidelines for setting up white-label ATMs (WLA). A WLA operator is defined as an authorized non-bank entity that can run an ATM by declaring a bank as a sponsoring bank, who serves as a settlement bank within the purview of RBI regulation. Apex bank has also identified technology as a key tool for enhancing the financial facility to each and every individual of the India. Internet Banking is also the cheapest mode of banking, but India lack behind in the infrastructural facility as well as number of Claimed Internet Users in rural part of India is only 38 million, which is only 4.56 percent of the total Indian rural population (IAMAI Report, 2012). This level of penetration is very low considering the huge rural population. Rural India has 323 million mobile phone users as on June 2012 (IAMAI Report, 2012), this is also not so huge to go for mobile banking.

Concentration on installation of more number of ATMs in almost all remote places in the country is the best alternative to address this problem. ATMs alone may again not properly give results as the operating ATM may even set back a lot of rural population from the financial inclusion. Along with suggestion of Rangarajan Committee, where bank saathis or business correspondents will give the door step service through electronic device to rural public, ATM's should be accompanied with a bank staff, who will act as a helping hand for the rural customers in facilitating their financial activities through the machines. The employee at the ATM center will also advice the rural population regarding operational aspect of ATM as well as their various financial issues. Rural customers may not only do their transaction till traditional banking activities, but may also take the advantage of other facilities of the bank provided to urban population. Presence of the bank staff at the remote ATM center will also provide a sense of trust among the rural population with concern to financial activities and banks will also be benefited in terms of cost to grab the untouched opportunity at rural level without opening brick and mortar branch. This may create a win-win situation for banks in terms of reaching the rural parts of the country with cost efficiently as well as it will facilitate the rural customer to be included in financial system of India.

CONCLUSION

Considering the constrains in serving the rural population as well as the cost involved for doing so, help of technology will be a better alternative. Along with other measures taken by Reserve



bank of India, all commercial banks should utilize the available resources related to technology in order to increase the business spread to the rural and remote areas of the country. ATMs with banking personal to help the rural population for all banking facilities will be beneficial to bank as well as rural people. This may definitely help to connect the people who are poor, illiterate, unaware and reside in remote areas with the bank and overall financial system. Banks may also not find that difficult to execute this kind of model as it will not involve that much cost, which required serving these people through brick and mortar branches.

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