

# Role of Banking Sector in Rural India

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## ABSTRACT

Most of the population in India lives in rural area. They are away from the banking services. Therefore India has adopted a multi-pronged approach towards financial inclusion. As it has been the case in several other countries. Though the term financial inclusion is of recent origin, the efforts to bring the poorer and weaker segments of the society within the fold of the formal banking system were initiated both by the Reserve Bank and the Government. Importance of rural banking has been recognized by the country's planners and policy makers since independence. All India Rural Credit Survey and All India Rural Credit Reviewed paved the way for commercial banks entering into rural banking in a big way. The banking is one of the most essential & important parts of the human life. In current faster Lifestyle peoples may not do proper transitions without developing the proper bank network. The banking system in India is dominated by nationalized banks. The performance of the banking sector is more closely linked to the economy than perhaps that of any other sector. The growth of the Indian economy is estimated to have a slowed down significantly. The economic slowdown and global developments have affected the banking sector's performance in India in FY12 resulting in moderate business growth. It has forced banks to consolidate their operations, re-adjust their focus & strive to strengthen their balance sheet. The main objective is to study the rural banking in India. This paper discusses only one Role of Rural Banking & its opportunities & challenges etc.

**Keywords:** Rural Banking, Financial Inclusions, Rural Development, Regional Rural Banks.

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## I. INTRODUCTION

Indian Banking system had played an important role in the economic growth of India since 18<sup>th</sup> century. RBI is the main authority of public sector banks, private banks, financial and non financial institutions. Banking system is classified into scheduled bank and non-scheduled bank.

## II. BANKS: FUNCTIONING FOR THE DEVELOPMENT OF RURAL AREAS

The area of operation of a majority of the RRBs is limited to a notified area comprising a few Districts in a state. SBI has 30 Regional Rural Banks in India known as RRBs. The rural banks of SBI are spread in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. Apart from SBI, THERE ARE FEW BANKS WHICH FUNCTIONS FOR THE DEVELOPMENT OF THE RURAL AREAS IN INDIA. Few of them are follows

- Haryana State Cooperative Apex Bank Limited
- NABARD
- Sindhanur Urban Co-operative Bank
- United Bank of India
- Syndicate bank
- Co-operative Bank

## III. CO-OPERATIVE BANKS AND RURAL CREDIT:

The co-operative bank has a history of almost 100 years. The co-operative banks are an important constituent of the Indian financial system, judging by the role assigned to them, the expectations they are supposed to fulfill, their numbers, and the

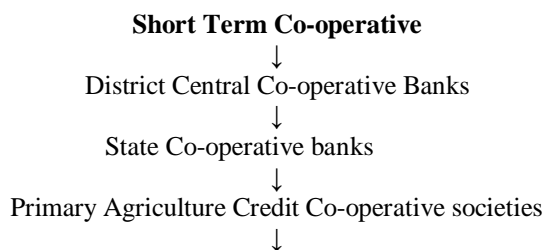
numbers of offices they operate. Their role in rural financing continues to be a important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative societies Act. The RBI also regulates the cooperative bank. They are governed by the banking regulations act 1949 and banking laws(co-operative societies)Act,1965.

#### Co-operative banks in India financing rural areas under:

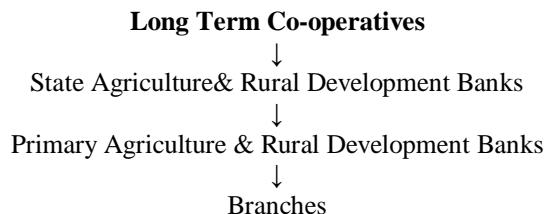
- Farming
- Cattle
- Milk
- Hatchery
- Personal finance

#### Institutional Arrangements for Rural Credit (co-operatives)

- Short Term Co-operative
- Long Term Co-operatives



#### Branches



#### IV. REGIONAL RURAL BANKS AND RURAL CREDIT:

The Narasimham committee on rural credit recommended the establishment of Regional Rural Banks (RRBS) on the ground that they would be much better suited than the commercial banks or co-operative banks in meeting the needs of rural areas. Accepting the recommendations of the Narasimham committee, the committee, the government passed the Regional Rural Banks Act, 1976. The main objectives of RRBS is to provide credit and other facilities particularly to the small and marginal farmers, agricultural laborers, artisans and small Entrepreneurs and develop agriculture , trade, commerce, industry and other productive activities in the rural areas

The progress of RRBs in the initial stage was quite rapid. For instance, the sixty Five year plan (1980-85) had envisaged the setting up of 17 RRBs covering 270 districts by the end of March 1985. The target was exceeded. There are now 196 RRBs in 23 states of the country with 14,200 branches.

#### Structure of regional bank:

The establishment of the Regional Rural Bank(RRB) was initiated in 1975 under the provisions of the ordinance promulgated on 26.9.1975 and thereafter section 3(1) of theRRB Act,1976.The issued capital of RRBs is shared by central Government, sponsor bank and the state government in the proportion of 50%,35% and 15% respectively.

#### RRBs established with the explicit the objective of:

- ❖ Bridging the credit gap in rural areas

- ❖ Check the outflow of rural deposits to urban areas
- ❖ Reduces regional imbalances and increases rural employment generation

## V. ROLE OF RBI IN RURAL CREDIT

Since it was set up in 1934, RBI has been taking keen interest in expanding credit to the rural sector. After NABARD was set up as the apex bank for agriculture and rural development, RBI has been taking a series of steps for providing timely and adequate credit through NABARD. Scheduled commercial banks excluding foreign banks have been forced to supplement NABARD's effort through the stipulation that 40 percent of net bank credit should go to the priority sector, out of which at least 18 percent of net bank credit should flow to agriculture. Besides, it is mandatory that any shortfall in fulfilling the 40 percent target or the 18 percent sub-target would have to go to the corpus Rural Infrastructure Development Fund (RIDF). RBI has also taken steps in recent years to strengthen institutional mechanisms such as recapitalization of Regional Rural Banks (RRBs) and setting up of local area banks (LABs).

### Micro-Finance:

Micro-finance is a novel approach to "banking with poor" as they attempt to combine lower transaction costs and high degree of repayments. The major thrust of these micro-finance initiatives is through the setting up of Self Help Groups (SHGs), Non-governmental organizations (NGOs), Credit Unions etc.

### Kisan (Farmer's) Credit Card

Another notable development in recent years is the introduction of Kisan credit cards (KCC) in 1998-99. The Purpose of the Kisan Credit Cards (KCC) scheme is to facilities short term Credit farmers. The scheme has gained popularity and its implementation has been taken up by 27 commercial banks, RRBs and central co-operative banks.

## VI. OBJECTIVES OF THE STUDY

1. To study the role of banking sector in rural India
2. To analyze the opportunities & Challenges of Rural banking of India
3. To overview the role of RBI in maintaining statutory obligations of rural banks in India.

### Scope and Limitations of the Study:

In the study is taken on role of the original rural banks in the development of rural India. The majority part of the research work is depends upon secondary data. Financial data is not applied in this research work.

## VII. ROLE OF BANKING SECTOR IN RURAL INDIA:

In this current scenario there are many rural areas where the people does not know about the schemes launched by the government of India. Banking sector is the best deliver channel to make the awareness of schemes to the educate and uneducated people in the rural area. In rural area 41% of the people having normal saving account, who does not even know the technology developed in the banking sector through mobile banking. ATM, credit card loan facilities, net banking etc. only 20% of the people in India have the knowledge about the technology development in banks. The greatest impact made by the banking sector in rural India is as follows:

1. Wealth to farmers.
2. Wealth to education system.
3. Wealth to business people.
4. Retail banking.

## VIII. WEALTH TO FARMERS:

Bank announces various schemes to farmers to develop their financial status and economic growth of India in rural areas. Bank provides the loan amount with low interest to develop the agricultural officers to guide the farmers regarding loan facilities and scheme provided by the bank.

## IX. WEALTH TO EDUCATION

Educational loan provided by the bank make the fantastic impact on low level and middle level people's children educations, by this loan rural area people can give the good educations level to their children. Education is one of the main developments of the rural area made by the banking sector

## X. WEALTH TO THE BUSINESS

Mundra bank is one of the crucial steps taken towards the development in the banking sector. Mundra bank is specially devoted for the micro units/small level people. PRADHAN MANTRI MUNDRA YOJANA scheme is used to develop all micro units' business development.

The schemes provided by Mundra bank are

1. Shishu covers loan amount upto 50000.
2. Kishor covers loan amount upto 50000-5lac.
3. Tarun covers loan amount upto 5lac-10lac.

Mundra bank makes the milestone to the small level enterprises to enlarge their business activities.

- Money, everybody knows, makes the Margo. The banking industry is therefore, the real backbone of any country because it controls the entire economy. It was some twenty years after the attainment of independence in this country that the national leaders thought of involving the banks in a big way in the development plants of the country.
- Rural indebtedness had taken deep roots in the country. It constituted a serious economic, social and political problem. Banks came to the rescues of the rural population as a 'messiah' and gave them a new sense of dignity. The picture of rural India has changed in a big way during the last two decades. There no scheme or developmentproject in which banks has not been directly involved. Be it IRDP, RLEGP, TRYSEM, SEP UP or POP, bank have always been in the forefront. Banks, it can be claimed, have achieved almost all the targets for priority sector advances fixed for them in the last few years. Banks are not only giving loans for purchase of tractor's seeds or for digging of wells, but also becoming active participants in bringing new technology to the farmers and in educating them.

## XI. ROLE OF RBI

- The statutory powers regarding the maintenance of statutory cash reserve ratio (CRR), statutory liquidity ratio (SLR), branch licensing are still vested with the RBI. The function regarding the scheduling of RRBs was also watching the obligations under sections42 of the RBI act remains with RBI. It is empowered to call for returns from RRBs as laid-down in the banking regulations act. It can give directions to the RRBs under the provisions of the B.R act, on rates of interest to be charged on loans and advances, on rates of interest payable on deposits and on regulations of advances. The RRBs act, 1976, as it exists today, has also empowered the RBI in the following matters.
- The head office of an RRB is notified by the central government after consultation with the RBI and the sponsor bank.
- The authorized and paid-up capital of an RRB can be increased or reduced by the central government in consultation with the reserve bank, the concerned state government and the sponsor bank.
- The central government is empowered to give directions to the RRB is regard to the matters of policy involving public interest in consultation with the RBI.
- The central government may, after consultation with RBI and sponsor bank, by notification in the official gazette, make rules for carrying out the provisions of the RRBs act.

## XII. RURAL INDIA-BANKING OPPORTUNITIES

1. **Farm mechanization:** agricultural inflation has been consistently increasing due to demand supply gap and there is an imminent need to improve productivity by extensive use of farm mechanization. This invites major investments and it is an opportunity for banks to consider financing high tech agriculture production like agricultural biotechnology and farm mechanization besides continuing the traditional lending like production loans.
2. **Agro based industries:** The consumption boom is likely to lead to higher demand food products viz., milk, meat, eggs, fruits, vegetables, pulses etc..., which warrants supply augmentation. This can be achieved through expanding farm production activities coupled with encouraging entrepreneurs.To set up agro based industries. Next generation belongs to the millions of young entrepreneurs to set up agro based industries. Next generation belongs to industries in rural

areas will be beneficial to the owners as well as farmers since it addresses many logistic issues. Further, these industries usher employment opportunities in rural areas and supplement the income of the rural households.

3. **Ware housing:** India is the world's largest producer of fruit and vegetables but it has been estimated the inadequate post-harvest storage and transportation cause losses of around 30-40 % of the produce every year. Constructions of rural go downs, cold storage and setting up of agro process units not only helps the farmers to income besides providing employment opportunities to many in rural areas. This invites huge investment and the entrepreneurs look at banks for required financial support and guidance.
4. **Retail banking:** There is a spurt in middle class segment and it is expected to grow at accelerated pace in the ensuing years with distinct features viz., educated, employable and bankable. The declining dependency ratio and increased non-farm income source are the triggers for the increased flow of saving to the banking system and a demand for retail banking services. The demand for housing in rural area is on the rise over the years. Excepting weaker section housing, majority rural housing is being self-financed. There are ample opportunities for the banks to tap this segment. However, affordable housing is need of the hour; this would require a great deal of technological and financial innovation.
5. **Educational loans:** The increased literacy rate (from 12% in 1951 to 69% in 2011) among rural masses is a positive factor. The recent government initiative i.e. Waiver of entire interest on education loan during the study period to the students whose parental income is below 4.5lacs per annum, has made the education loan scheme more attractive and enabled the banks to improve retail lending. Further, it paves the way to strengthen the bondage with gen-Y, a potential business segment for banks.

### XIII. MOBILE BANKING

Till recent years, mobile/cell phones used to be a status symbol or lifestyle product, and now it has become a necessity and inseparable with day-to-day life of the individual irrespective of age, education and financial background. India accounts for about 1/4<sup>th</sup> of world's mobile market with 965 million and making inroads to remote areas. The share of rural subscribers is around 35% speaks growing potential of this segment. The reach of the mobile to the remote areas and its usage by the common man has become order of the day. The swift growth in number of mobile users and wide coverage of mobile phone networks has made this channel an important platform for extending banking services to customers. Mobile banking runs on Internet Mobile Payment services (IMPS) mode enables the bank customers to have access to their bank accounts and carryout banking transactions including funds transfers across the banks using mobile phones independent of branch/business correspondents.

**M-wallet** is the further extension of mobile banking and it acts like a pre-paid account operated through a mobile phone which can be used for small purchases, remittances, bill payments and cash withdrawals. Telecom players are playing significant role in taking this concept forward with strategic tie-ups with banks as service provider as well as business correspondents. As per the recent study, the cost-effective is one of the major advantages of the mobile banking, as per the mobile based transaction cost is about 2% of branch banking, 10% of ATM and 50% of the internet banking.

**T-Banking:** Today, we rarely come across a house television. It has become one of the cost-effective modes to disseminate information and to provide entertainment to the public. Banks may use of the existing cable network to extend banking services to vast segment using this mode as non-branch service delivery channel. However, this model yet to take a shape for pilot implementation.

### XIV. CHALLENGES

- 1) **Technology-**Though, Mobile Banking is most cost effective compared to other channels to reach unbanked areas, all three stakeholders viz. the Telecom Operators, Banks and Merchants should work in tandem with suitable business model on robust technology platform to achieve the desired results.
- 2) **Human resources-** The presence of full-fledged Brick and mortar branches, newly introduced ultra small Branches and business correspondents (BCs) are going to stay in rural India. However, the said delivery channels need to be handled by the staff absorbed with positive attitude. The present recruitment policies of the banks signify the fact that majority of staff absorbed are formed urban background and they are not keen to serve in rural areas, causing a hindrance for smooth banking operations in rural areas. At this same time the banking industry is in need of another 1.50lacs additional man power to serve the unbanked areas which is a major challenge. Ironically, there is large no of rural population with average academic background is eagerly waiting for employment opportunities.

Similarly, personally handling BCs need to be trained further enable them to help the customers in understanding the financial products and to take informed decisions. Achieving full scale financial inclusion, BCs also need to be adequately trained both on technology platform and banking domain knowledge. This issue needs to be addressed on priority by adopting suitable recruitment models to attract local talents. Its is the time for the banks, Governments and regulators to pay focused attention on the above issues and initiate necessary steps to bridge the gap through adopting appropriate recruitment policies for sustained growth of the banking industry.

- 3) **Financial Literacy**-In the above backdrops, major chunk of prospective customers are likely from unbanked /under banked population whose awareness towards banking services is limited. It warrants strategic initiatives in banks from inviting investment in customers education financial literacy and awareness program

## XV. FINDINGS

- 1) Rural Banks Play Vital Role in India for economy development as well as

- Wealth to farmers.
- Wealth to education system
- Wealth to business people.
- Retain banking

- 2) It give more opportunities like

1. Farm mechanization
2. Agro based industries
3. Ware housing
4. Retain banking
5. M-wallet
6. T-banking

And also have challenges like

1. Technology
  2. Human resources
  3. Financial literacy
- 3) RBI has statutory powers regarding the maintenance of statutory cash Reserve Ratio (CRR), Statutory liquidity Ratio(SLR), branch licensing are still vested with the RBI. The function regarding the scheduling of RRBs was also watching the obligations under section 42 of the RBI ACT remains with RBI

## CONCLUSION

It has been practice of the government of India to consult the respective state government in the matter of establishment of the new RRBs, Their locations and their names. State governments are entirely to nominate two of its officials on the board of directors of the RRBs. It is throw such nomination that the local aspirations of the people are made know to the RRBs. The RRBs were setup in 1975 as the “poor man’s bank” or “low cost banks” to supplement efforts of co-operative and commercial banks. The RRBs since then have passed through various phases and now have been recognized integral part of the rural credit delivered system in the country.

The major advantage of the banking sector is ATM which provide debit and withdraw the cash amount in 24\*7 manners. Still banking sector making awareness to the people about net banking, Mobile banking, Credit card facilities, Business loans, Home loans, Personal loans, Mortgage loans through advertisement, Campaign, making calls to customers, giving the booklet which covers the banking facilities etc.. Banking sector is one of the ways to convey the schemes to consumers and the consumers enjoying their available schemes introduced by government of India through banks. Banking sector is making a fantastic growth of rural areas which in term, develop the economic growth of the country.

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