A STUDY ON THE INDIAN RURAL BANKING INDUSTRY

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ABSTRACT

Financial Inclusions has been one of the "most critical factors in the context of growth, including sustainable development in developing countries such as India. Financial Inclusion is a process" that ensures the availability of appropriate financial products and services required to the affected parties such as vulnerable categories and low-income groups at a fair and transparent cost to financial institution players. In our country, the Reserve Bank of India (RBI) has established a monetary policy aimed at providing affordable banking services to both the poorest and least paid parties. For a number of reasons, banking services are available mainly in urban areas, but the rural areas of India are not well covered. Rural development plays a major role in the development of the global economy. The researcher would cover several aspects of rural banking and the various challenges faced by the industry.

Key Words: Reserve Bank of India, Regional Rural Banks (RRBs), Rural Development, Rural Banking, Nationalisation, Financial Inclusion.

INTRODUCTION

Rural banking is "the process of conducting bank transactions in a country where bank branches are too far away to be used. Rural banks are very popular in very small towns with farmers living far away from densely populated areas and are unable to visit these areas whenever they need to use banking services." Usually, a bank agent will visit these rural areas and offer to make a formal transaction. 1

The rural bank is an investment vehicle, only available to meet the specific financial needs of the survivors of farming and farming in the Indian subcontinent. In a social sense, a local bank enters into the daily lives of its customers and becomes a partner in their well-being and suffering. "Financial Inclusion" and "Rural Banking" are often used interchangeably to indicate access to financial services from large, non-banking groups in India (Tripathi, A. ,2019).

Prerequisites for inclusive and sustainable economic growth are the building up of debt and financial services. Therefore, access to a more productive financial system, by creating equitable opportunities, enables economically and socially marginalised citizens to properly integrate the economy, to engage in growth and protect themselves from economic risks. Amartya Sen, however, insisted that "poverty was not just an income, but rather a lack of various skills, including security and the ability to participate in economic and political programs. As such, there is always a need for policy support on the use of financial resources to grow the poor economy of resources in any developing economy(Tripathi, A. ,2019).

FINANCIAL INCLUSION

Financial inclusion is a process that ensures the availability of appropriate financial products and services required to the affected parties such as vulnerable categories and low-income groups at a fairly costly and transparent cost to financial institution players. In the sense of inclusive growth and development, investment has been one of the most important factors. It is the affordable liberalisation of banking services for significant segments of the deprived and low-income population. It is the provision of low-cost financial services to those who may be excluded, such as access to payment and shipping facilities, storage, borrowing, and insurance services within a structured financial system. The Financial Participation Committee was established under the chairmanship of C. Rangarajan in 2008 and that committee described the term as "The process of accessing financial services, and the timely and adequate credit required by vulnerable groups such as vulnerable categories and low-income groups". It is a psalm that thinks of downloading everyone regardless of your financial status on the banking network (Ganorkar R. A.2014)

Need: Low-income families and small businesses, especially in urban and rural areas, are concerned about financial exclusion. It does not provide any banking services to people who are poor. According to K. C. Chakraborty "Financial inclusion is the unavailability of certain consumers to access appropriate, affordable, equitable and secure products and services from major suppliers". There are 3 types of releases:

A. People who do not have access to a regulated financial system;

B. Persons with limited access to banks and other financial services; and

C. People with inappropriate products.

The main reasons for investment are -

A) lack of local banking i.e., land abandonment which includes the division of rural and urban areas,

B) financial illiteracy,

C) attitudes of negligent employees,

D) complex documents and procedures,

E) language,

F) lack of awareness and initial prevention of access to the official facility,

G) income / lower assets,

H) distance from branch and branch time,

I) fear of rejection.

CONCEPT OF REGIONAL RURAL BANKS

RRBs (Rural Regional Banks) were established in 1975 and are governed by the RRB Act of 1975. RRBs are commercial banks by definition and are governed by the RBI Act of 1934‘s Schedule Two. The RBI issues licences to its branches under Section 23 of the Banking Regulation Act of 1949. "The National Bank for Agriculture and Rural Development (NABARD), which has the same powers as the RBI, directs them under Section 35 of the Banking Regulation Act, 1949". RRBs were created as a hybrid system with the aim of combining local feelings of cooperation with commercial bank business acumen to meet only the debt needs of the rural poor. It was created with the aim of forcing lenders out of business and filling the financial void left by cooperative and commercial banks in rural areas. In the last ten years, these financial institutions have expanded significantly. RRBs have been able to lend 60% of their loans to the homeless since the early 1990s. These banks were established with the goal of acquiring a rural area with a low-cost profile while also taking advantage of commercial bank technology and period. The focus group for assisting us in the way of multiple systems has been the poor sections. Rural banks will serve as the foundation for financial infrastructure for "rural growth through the support and promotion of sector planners." In March 2012, there were 82 RRBs operating in 26 districts, with a total of 638 districts, in a country with 16909 branches. A multi-agency structure model exists among the 82 RRBs that serve as commercial banks.2

Rural banking is one of India‘s fastest-growing industries, and it is critical to the country‘s economic growth and development. Despite the fact that agriculture now accounts for just 13.7 percent of GDP, it still feeds 3/4 of India‘s population and is a key driver of economic growth, in addition to providing the country‘s highest incomes. It demonstrates that as agriculture becomes more diverse, there is a greater demand for agricultural credit than there is availability. The timely availability of adequate agricultural funds has a huge effect on India‘s economic growth. Agriculture‘s rapid expansion is critical for everyone‘s inclusion. Since the 1950s, India‘s planned development has emphasised proportional growth and stability. The Five-Year Strategic Plan also emphasizes the "rapid and inclusive growth" that can be achieved through sound banking policies. Weak sections, farmers, agricultural workers and professionals who run small businesses and want to work for themselves are not very organized so prioritizing part of the total bank debt is important. Debt in the priority sector is emphasized to cater to those small-scale producers who are set aside or under-supply to date.

As per the RBI‘s advice/guidelines, Rural Regional Banks have initiated a number of steps to secure greater investment. Some of these steps are:

Opening of no-frills accounts: A simple bank account with no frills, a zero or very low balance, and no bank fees, making it accessible to a significant portion of the rural population. Small overdrafts are available from RRBs on such accounts.

Relaxation on know-your-customer (KYC) norms (KYC): KYC conditions for opening bank accounts have been reduced to smaller accounts since August 2005. RRBs are now permitted to accept all proof of a customer‘s identity and address with satisfaction. It is now easier to enter documents provided by the Unique Identification Authority of India (UIDAI) that contain information about the name, address, and Aadhaar number.

General Credit Cards (GCCs): With the aim of helping the poor and the rural poor access easy credit, RRBs are launching a target of obtaining up to 15,000 credit cards at their local and urban branches. The purpose of this program is to provide customers with a secure credit-based credit rating without compromising on security, intent or use of credit.

Engaging business correspondents (BCs): In January 2006, the RBI allowed organized commercial banks to engage business facilitators (BFs) and business books (BCs) as mediators in the provision of financial and banking services. The BC model allows banks to provide door-to-door service delivery, especially cash withdrawals, thus addressing the issue of mileage storage. The list of eligible people and organizations that can be held as BCs is expanded from time to time.

CHALLENGES OF RURAL BANKING

Lack of accessibility is a major problem for all those people living in geographically nonpartisan regions. With many commercial banks close to the cities, people in rural areas have a local barrier to accessing banks. In rural India, a lack of functional and social infrastructure is a major barrier to legal financial services. The average distance from the USA branch to the India branch is around 3.8 kilometres. This lack of access to banks can make it difficult for people to save a lot of money or get into debt through bulk purchases such as business start-ups, agricultural inputs, or protective health products. While rural customers have access to official banks, there is no guarantee that these facilities will be used. According to a World Bank study, many households, also in developing countries, do not have bank accounts because they do not engage in many financial transactions that raise salaries in cash, use cash, and do not want to be carried out via a bank account.

Availability of legal financial services also requires proof of personal identity, income, etc. Poor people do not have these documents. They cannot show their identity documents when opening a bank account or during a loan. Most people do not know the bank‘s terms and conditions. They can also register for services at the beginning but may not use them as others due to the long distance between the bank and the accommodation, poor infrastructure etc. Since local banks are usually not in an accessible area customers may spend the whole day visiting the bank branch which opens between 10:00 am and 5:00 pm. Most rural customers may give up a day‘s salary to reach out and work with the branch. While some bank transactions can be done over the telephone, this is rarely an option in a country with such a small rural internet presence.

Customers will seek reliable, fast, and affordable services as the level of education in rural areas rises and wealth spreads. In rural areas, as the financial system progresses and new forms of financial intermediaries emerge, financiers consider joint funds or the rescuers themselves plan to split a portion

of their accrued cash into shares and earnings rights, similar to other income securities. The majority of bank deposits in rural areas are currently long-term deposits, and as this declines, the maturity ratio between bank deposits will decrease significantly, resulting in increasing anomalies in asset debt. Their current abundance of banks would eventually dwindle, making it impossible for them to survive.

Financial awareness should be spread between a host of educated and illiterate people. With this in mind, transforming a viable Business Model and Efficient Delivery Mechanism is a major challenge for banks.3

Although the formal banking system offers loans at lower interest rates than informal banking systems, the credit intervals are higher which increases uncertainty and the cost of opportunities. Banks also emphasize the security of securities that many poor rural people cannot afford.

RRBs are facing a financial crisis.5 They rely on NABARD to raise money for their ongoing operations. Poor people in rural areas cannot save anything because of poverty and low income. The low level of savings of these customers creates a barrier for RRBs to raise enough money. High-interest rates and loans are one of the main concerns of RRBs. The output of these banks has been harmed by a lack of cooperation between RRBs and other financial institutions such as commercial banks, NABARD, and other cooperative banks.

Traditional banking will be put under pressure as more intermediaries with more technology reach rural areas. In order to cope with the competitive pressures of the most successful banks in the market recently, banks with a large branch network in many rural and affluent rural areas may need to provide such services.

FINDINGS

- It can be observed that Access to basic banking services in rural areas remains poor, and a significant backlog of even a legitimate bank account makes it extremely difficult for people to save; they will not be able to raise enough money to cope with unforeseen emergencies like domestic illness. People may need to take more expensive steps in the event of such a shock, rather than withdrawing money or taking money from the bank.
- It can be observed that the closest option that has received the most attention lately in rural areas is "mobile money," where people can transfer, deposit, and withdraw money using their mobile phones.
- It can be observed that behavioural factors Economic ethics research has shown that many people are not comfortable using legal financial services.
- It can be observed that many local banks suffer from heavy credit crunch due to low repayment rates, untrained staff, low deposit rates and severe loan penalties without regard to the eligibility of their customers.
- It can be observed in when banks set up small centres, or camps, to open accounts in rural areas, locals flocked after hearing rumours that the government might offer account holders money. People open accounts in the hopes of receiving free money, which makes them feel cheated if they do not receive it. They can believe that banks are defrauding them of their funds.
- It can be observed that there is a lack of information in rural areas about the role and function of banks, banking services, products, and interest rates, etc. This keeps people from investing in regular banks.

CONCLUSION AND SUGGESTIONS

Rural development plays a major role in the development of the global economy. Rural banks/branches are expected to play a key role in providing banking services to meet the expected increase in their customers in rural areas. But the position of Rural Banking in India is not encouraging at all. There is a need to introduce new models in product design and delivery systems by making better use of technology and related processes to reach all rural people. The provision of various financial products and services in rural areas will improve the income of banks and contribute to the development of rural areas.

The Government of India founded Rural Regional Banks to grow and revitalise the village economy. Its rapid growth has significantly aided in reducing regional disparities in banking facilities in India. RRBs‘ efforts in promoting finance, rural growth, branch expansion, and debt transfer in key sectors, especially agriculture and the fragile rural sector, have been lauded over the last three decades. In 1998, the Indian government launched a new credit distribution scheme, the "Kisan Credit Card," to assist farmers in obtaining simple and short-term credit from RRBs and commercial banks. Despite the impressive specifics of the agricultural flow, small and poor farmers have difficulty obtaining credit. To reach small and medium-sized rural farmers, new creative approaches in product creation and distribution mechanisms, as well as better use of technology and associated processes, are needed.

Banks should conduct training sessions to explain to local people why it is important to keep an account, and how people can learn to save and invest in a variety of ways. They can also encourage rural people to look for opportunities for their small businesses.

Rather than reducing the number of branches in rural areas, it should be encouraged to implement more complex credit distribution mechanisms to meet evolving agricultural needs. Regional planning authorities, Panchayati raj centres, and rural banks should all have open lines of communication.

The growing increase in the fact that the spread of literacy and the development of growth practices in the rural sector can be key to improving effective supply and reducing the real cost of rural debt. Access to financial services and Financial Education must take place simultaneously. It must be continuous and should apply to all categories of people.

To distribute visual bank cards and SMART cards in rural areas, it is important that electricity and telecom communications continue and goods do not lose out especially at times when commercial banking is at an all-time high. Banks can, under the conditions of guaranteed delivery find the required software and establish the necessary connections to provide any banking facilities in rural and urban areas.

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