

Rural Development @ Indian Rural Banking Sector: Big Challenges and the Road Ahead



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Abstract

The establishment of the new financial institution in the regional rural banks (RRBs) in India has been increasing on the basis of the observers and analyst of the Indian economy since 1975. At the time of the establishment of banking sector in India the Rural banks largely focused upon the agriculture sector but in current days rural bank becomes business banks and local rural banks in India are providing a strong growth in economic sector of the country. There is a vital need to speed up branch expansion in rural areas. Now RBI plans to extend financial services every area in the next five years. This research paper attempt is to examine the rural development through establishing the RRBs in India and also evaluate their performance. Initially Indian Rural banks have been established to meet the needs of the weaker segment of society. This step helps to eliminate rural indebtedness. With the development of banking services rural banks provide protection for the rural population from the command of the various moneylenders. Rural bank have been providing their strong support in economic development of India. In this paper an effort has been made to make out the general challenges and opportunities for the rural banks in India. This study is a small seed to rural development through the branch of knowledge in rural banking in Indian banking industry and Development of rural banks are beneficial for bankers, strategist, policy makers and researchers.

Introduction

The Rural banks were established “to fulfill the aims of implementation of credit structure and enhancing the rural area.” There is a relief to the poor rural people with the establishment of co-operative societies. To provide banking services to the neglected sections of the society, especially the poor farmers, landless laborers and artisans in 1969, 14 leading banks were nationalized in India. With the growth in Indian banking industry the nationalized banks also expanding their branches in rural areas. On August 18, 1975 a conference of Chief Minister and State Finance Ministers was held in Delhi to study the credit requests of rural people. Outcome of that conference is to give these banks a different shape other than the commercialized

and co-operative banks. On Oct 2, 1975, 50 banks were opened in 9 different districts of various states in India. Rural bank’s share capital was made up by central government, state government and commercialized bank in ratio of 50%, 15% and 35% respectively. Now there are 196 RRBs (Regional Rural Banks) in 23 states in India with 14,200 branches. Rural Banks in India are called RRBs. SBI’s rural banks are reaching in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. In India rural banks also providing finances for their rural customer for Farming, Cattle, Milk, and Hatchery purpose and for Personal Loan also.

Rural Bank’s Objectives

1. The rural banks are providing credits to rural population to make it more productive

and raise the level of life & they will identify the credit needs of each region to regulate productivity of rural areas.

2. Rural banks combine the better features of both the systems of commercial banks and the co-operative societies.

3. Rural banks effectively develop the plan to repay the government loans on regular basis.

4. Rural banks will be providing help to develop an economic vision for the rural India as make the use of the fruits of science and technology as their motto is "Banks exist for the people and not people for the banks."

Rural Bank's Planning Model: Rural Credit Bank's planning

Short Term Co-operatives → District Central Co-operative Banks → State Co-operative Banks → Primary Agriculture Credit Co-operative Societies → Branches Long Term Co-operatives → State Agriculture & Rural Development Banks → Primary Agriculture & Rural Development Banks → Branches

Structure Of Indian Banking Industry

Reserve Bank of India which is the regulatory, central bank provides various guidelines for functioning in Indian banking industry.

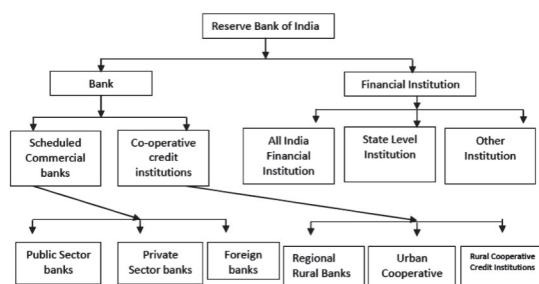


Figure 1: the Commercial Banking Structure in India Source (www.rbi.org.in)

The Technological Innovation in bank's at the rural door step

The technological development boom was started in the year 2005 by the RBI and other commercial banks in India. Financial inclusion is an important driver of sustainable rural

development. On 10th February, 2011 for financial development "Swabhiman" A multimedia special campaign 'was launched. Now as the direction of RBI, guidelines of RBI is not required by the domestic scheduled commercial banks) to open branches in Tier 3 to Tier 6 centres i.e., population up to 49,999 subject to some conditions. But it is essential to take guideline to open branches as RRBs. **CBS mode** is actual implementation of technology and accurate delivery of banking services to various customers. Today the customers are using online banking services, using E - statement the customers are able to get balance enquiry, amount of EMI due through tele-banking services or mobile banking or the use of ATM platform are the part of CBS mode. **Internet Banking** is widely used banking services in India. Mobile banking is a substitute for brick and mortar structure of the bank branches and increasing branch density in rural areas. It helped to overcome the supply side barriers of financial inclusion. The customers can enter, store, process, display and transmit information through mobile banking. **Mobile banking** as branchless banking channel is helpful for rural customers to save time and cost in various transactions. Now mobile banking in rural areas provides delivery of various banking services like saving mobilization, withdrawals, credit disbursements and repayments of funds. The mobile banking is useful for inclusive rural banking and also to minimize the cost of transaction/services for the banks as well as rural customers. The 12- digit unique numbered identity card (Aadhar) issued by UIDAI is the most significant development under financial inclusion drive. Aadhar will be used to complete the KYC norms for opening the bank account of prospective rural customers and migrant workers. Aadhar has multipurpose use as with ICT application. it Card can be linked to bank account and can be used as ATM Card if a magnetic strip is attached with the card. In current time, ATM's used by rural customers are biometric based instead of password or PIN based.

Literature Review

Z Irani , A.M. Sharif , P.E.D. Love (2011) seeks to explore the human and organizational dynamics associated with knowledge and technology evaluation within a manufacturing organization . Inductively, showing the propagation of knowledge and learning when set against a backdrop of information systems evaluation. The rationale for exploring knowledge and information systems evaluation in manufacturing is that through empirically extrapolating explicit and tacit knowledge drivers, a knowledge map will emerge for others to use during their technical evaluation.

Yang & Ahmed (2009) studied a case study about the major issues and challenges in the development of e-banking industry of a relatively underdeveloped nation. The study explored that even in many less developed nations, the application of e-banking can help their local banks to reduce the operating costs and provide a better and fast service to their customers. The research paper examined the current trends and developments in e-banking and provides managerial insights for the banking industry in those underdeveloped nations. The study described an empirical study about the recent trend and development of the application of e-banking in a developing country along with its economic impact on local financial institutions.

Objective of the Study

- To explore the growth of various bank branches in rural ,semi urban ,urban and metropolitan region in India.
- To study the growth of ATMs in various region in selected financial year

Research Methodology

Stratified Random sampling method has been used to collect the data on the development

of rural banks in the duration of FY 2013-2014, FY 2014. The collected data has been organized on the basis of zones as Rural, Urban, Semi urban and metropolitan basis.

Secondary Data: The secondary data has been collected from various published reports of Reserve Bank of India, Ministry of Information Technology (Government of India), Rural bank's report , referred journals and publications.

Hypothesis: (H0): There is no significant impact of emerging technology on the development of rural banking in rural, urban, semi urban and metropolitan zones.

Hypothesis: H₁: There is a significant impact of emerging technology on the development of rural banking in rural, urban, semi urban and metropolitan zones.

Data Analysis Tool

To explore the growth of banks in rural ,urban, semi-urban areas different statistical tools like mean, standard deviation, chornbach's alpha Reliability test have been applied using SPSS analytical application. The expansion of bank branches in public and private sector banks and foreign bank ,regional Rural banks have been analyzed with the help of RBI reports on trends and progress.

Findings And Data Analysis

Growth of Information Technology enabled Indian Rural Banking

Majority of the new bank branches were opened in rural and semi-urban areas. Now with using updated information technology Reserve Bank has been trying to open new bank branches in rural areas, more than 2/3 of total new branches opened during FY 2014 were in rural or semi-urban areas. Among the regions, southern region accounted for almost 30 per cent of total new bank branches opened.

Table 1.1: Region-wise and Population Group-wise New Bank Branches Opened during FY 2014

Region	Rural	Semi -Urban	Urban	Meteropolitan	Total
Central	543	483	240	119	1385

Region	Rural	Semi -Urban	Urban	Meteropolitan	Total
Eastern	301	352	217	89	959
North -Eastern	43	60	49	-	152
Northern	450	425	187	205	1267
Southern	647	871	315	247	2080
Westren	269	387	122	297	1075
Total new bank branches	2253	2578	1130	957	6918

Source: www.rbi.org.in

As per Table 1.1 Region-wise and Population Group-wise New Bank Branches are Opened during 2011-12 and banks not require to take prior approval from the Reserve Bank in order to open branches in Tier-2 to Tier- 6 centres. In FY 2014 new bank branches have been opened in rural areas as second highest position of 2253.

Table s1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.817	.912	6

Source: SPSS Analysis Table

Table s2: Analysis of Region-wise and Population Group-wise New Bank Branches Opened during FY 2014

	Semi-urban	Urban	Metro	Rural
N Valid	6	6	6	6
Mean	429.67	188.33	171.17	375.5000
Std. Deviation	261.590	93.114	92.127	216.68756

Source: Spss Analysis Table

Table 1.2: Share of population groups in increment of ATM FY 2014

Population Group	Share of ATM
Rural	7%
Semi -Urban	22%
Urban	33%
Meteropolitan	38%

Source: www.rbi.org.in

Table 1.2 shows the Share of population groups for ATM's have been increased up to 7% in rural areas in FY 2014.

Table 1.3: Share of Regions in total numbers of new ATMs opened: FY 2014

Region	New ATM Share
Central	17%
Eastern	12%
North -Eastern	2%
Northern	20%
Southern	32%
Westren	17%

Source: www.rbi.org.in

Table 1.3 shows that there are maximum branches of Public sector Banks in rural area on 31st march 2014. Regional Rural Banks were on second position till march 2014.there are highest total rural branches in march 2014 as compare to Semi -Urban, Urban, Meteropolitan areas.

Bank-Branch and ATM Net-work

Table 1.4: Branches of Scheduled Commercial Banks group wise on 31st March 2014

Bank Group	Rural	Semi -Urban	Urban	Mete-ropolitan	Total Bank's Branches
Public sector Banks	23286	18854	14649	13632	70421
Private Sector Banks	1937	5128	3722	3797	14584
Foreign Banks	8	9	65	249	331
Regional Rural Banks	12722	3228	891	166	17007
Max branches of given group	23286	18854	14649	13632	70421
Total branches	37953	27219	19327	17844	102343

Source: www.rbi.org.in

Table 1.4 shows that there are continuous expansions of rural bank branches from the year FY 2010 – FY 2014. Rural functioning branches reach at 37953 in numbers on March 31st 2014.

Table 1.5 Functioning branches of Scheduled Commercial Banks till March 2014

Year	Rural	Semi -Urban	Urban	Meteropolitan	Total Bank's Branches
March 31 st 2010	31476	19126	15273	14325	80200
March 31 st 2011	32493	20855	16686	15446	85480
March 31 st 2012	33905	23115	17599	16419	91038
March 31 st 2013	36356	25797	18781	17396	98330
March 31 st 2014	37953	27219	19327	17844	102343
Branches Expansion	37953	27219	19327	17844	102343

Source: www.rbi.org.in

Table 1.5 shows that Public sector Banks have highest Number of ATM's in India in rural sector on 31st March 2014. Foreign Banks are also opening their ATM's in rural area.

Table 1.6: Number of ATMs in India as per FY 2014

Bank Group	Rural	Semi -Urban	Urban	Meteropolitan	Total ATM's
Public sector Banks	8552	18445	22518	20137	69652
Private Sector Banks	768	2760	2354	1684	7566
Foreign Banks	2214	6484	10995	15842	35535
Regional Rural Banks	30	21	244	966	1261
Max ATM's Group	8552	18445	22518	20137	69652
Total ATM's Region wise	11564	27710	36111	38629	114014

Source: www.rbi.org.in

Table s3: Inter-Item Correlation Matrix

	Bank	Rural	Semi Urban	Urban	Metro	Bank Branches
Bank	1.000	.153	.033	.061	.084	.011
Rural	.153	1.000	.907	.872	.844	.944
Semi Urban	.033	.907	1.000	.996	.990	.995
Urban	.061	.872	.996	1.000	.998	.985
Metro	.084	.844	.990	.998	1.000	.974
Bank_ Branches	.011	.944	.995	.985	.974	1.000

Source: SPSS Analysis Table

Challenges faced by Rural Bank's in India: An expectation of the customer's in India of banking services, are rising as the levels of services are increasing due to the emergence of Information Technology and competition.

- In India there are various rural areas where we do not have access to banking services due to scattered and fragmented locations.

- On the demand side, there is a lack of pressure from the bottom and on supply side, banks seem to be least interested to market the same due to the low profitability attached to the product. As per RBI details SBI have its vast presence in rural areas and now SBI is trying to introduce mobile technology and RFID in rural areas.

Future of Indian Rural Bank's: On technology front, emergence of new technology all bank's branches are working in CBS platform. All commercial banks are moving better in automation of their core banking services in rural areas in India.

- Most of the banking products have been designed keeping in mind the urban and metro customers. Rural banking requires more manpower for allocation of banking services.
- The public Sector Banks are now in credit card business. Multipurpose cards have been offered by the banks for rural population. The potential can be increased with SMART cards also. The banks must ensure best supply conditions of required banking software with efficient, fast network banking to offer “ **Anywhere Anytime banking in rural and semi-urban areas**” also.

Conclusion

Majority of the new bank branches were located in Tier 2-6 centres. Due to the liberalization of the branch authorization policy, banks are not required to take prior approval from the Reserve Bank in order to open branches in Tier-2 to Tier-6 centres. **Information technology** enabled rural banking will be in practice with the help of linkages between formal and informal organizations and public – private affiliation can provide effective results for Indian rural banking. RBI has directed that within the next five years the banking system must be extended to India's villages as part of financial inclusion. To develop rural banking conditions in India banks need to explore modern information and communication technologies and the emerging 3G technologies

to expand their business reach in rural areas and promote financial inclusion in India. The technological advancement and intervention in the Indian rural banking sector not only provides value added financial services to its rural customers, but also helps to maintain the volume of daily financial transactions.

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