

An Approach to Highlight Initiatives taken by Indian Banks for Rural Banking Development

¹Paria Ipsita & ²Giri Arunangshu

¹Deputy Manager, W.B.O., H.D.F.C Bank Ltd, Haldia, (India)

²Associate Professor, MBA Department, Haldia Institute of Technology, Haldia Institute of Technology, Haldia, (India)

ARTICLE DETAILS

Article History

Published Online: 10 January 2019

Keywords

Digitalization, Rural banking expansion, alternate banking channels, untapped rural market, mobile banking, m-wallet.

Corresponding Author

Email: ipsita.paria[at]gmail.com

ABSTRACT

This paper as an approach towards highlighting what are the initiatives taken by commercial banks to contribute towards rural banking development as well as business expansion in rural India. The research carried out to find the how banks are expanding in rural market with traditional banking and other alternate banking channels, how alternate banking channels are beneficial for rural customers. Financial inclusion and rural banking development is top most priority for RBI and government to take all rural customers under the umbrella of banking services to provide all government facilities as well as financial products at lower cost. Commercial banks with their target to tap rural market for the untapped business become the key resource for achieving financial inclusion.

1. Introduction

1.1 Background & Scope of the Study

India is an agriculture based economy. Majority of the Indian population are involved with agriculture and allied agriculture activity and majority of them belong to rural part of India. India is now one of the fastest growing nations in respect of economy in the world though its majority of rural parts are not availing the banking services. Thus Government of India and RBI has initiated financial inclusion program and instructed all the banks to maintain certain instruction while branch and business expansion. Banks are also taking initiatives to tap this untapped rural market for their business expansion. Rural people are facilitated with different types of government facility. They are having need for small ticket loans for farming, business activity. So banks are having ample opportunity to tap these rural savings and generate income by providing micro loans.

This paper will describe how the banks are taking initiative to provide banking services to the rural economy and understand the channel preference of the rural customers.[1][3]

1.2 Objectives of the Study

- To discuss approach of banks to tap rural banking business and business growth of banks.
- To discuss the channel preference of rural people among all banking channels.
- To measure the performance of the banking channels in rural areas and growth of rural development

2. Literature Review

As literature reviewed, the main reason for banks initiative towards rural banking is financial inclusion initiative by Government and RBI as well as business strategy to tap rural economy by banks.

Anand M.B & Sreenivas D.L (2013) discussed about how traditional banking expanding their boundaries to make interface between customers and banks and branchless banking has been introduced. N Sundaram & M Sriram (2016) discussed about branchless banking technologies like ATMs, internet banking, point of sale, mobile banking, kiosk banking etc to achieve financial inclusion in vellore district, Tamilnadu. L S Subramanian (2013) discussed about financial inclusion is economically profitable business with innovative service delivery and IT solutions. Rajasree K R and Vidya Vijayan (2018) discussed about branchless banking in India and budgetary activity of Indian Government. Sowmya Hegde & Veena D Kotian(2016) discussed about how branchless banking as a model become a part of financial inclusion. V Devadevan(2013) discussed about how IT plays an important role in banking sector and as most used common device how mobile banking become an alternate service channel for people. Vinod Kumar Gupta, Renu Bagoria, Neha Bagoria(2013) discussed about the positive and negative impact of mobile banking and growth of mobile banking in India.[10][11][12][13][14][15][16]

3. Research Methodology

3.1 Data Sources

Secondary data has been analyzed for this paper which is collected from Websites, journals, magazines, published data of Banks.

3.2 Data Analysis

Data collected for research paper are tabulated in nature and statistics such as percentage, charts are used.

4. Initiatives taken by Indian banks for rural banking development

4.1. Branch expansion & Bank on wheel

- **Brick motor branches:** Banking Penetration in rural part of India is very low. Count of villages without banking facilities in India is higher than any developed country. As initiatives taken by Government for financial inclusion RBI also mandated of opening 25% of branches in rural area without banking facilities by commercial banks.[2]
- **Ultra small branches:** Commercial banks are now opening micro branches in the rural part of India. They are installing branches where only one or two bank officials can manage all normal banking queries according to customer need rather than appointing product specific managers.[2]
- **Branch on wheel:** Few Indian Banks are now installing branches on wheel with RBI guidelines where bank officials will visit unbanked villages on a predefined place, date & time by van with laptop and connectivity to access core banking platform.[4]

4.2 Agency Banking

- **Banking through correspondents:** RBI granted permission for this type of channels to improve banking business. This model are using mobile technology along with smart card general banking services like small token cash collection and payment, small value loan disbursements, emi collection, insurance & MF sale etc.
- **Special Purpose Vehicles:** Few banks signed agreement with CSC-SPV to provide basic banking services to the entrepreneurs and rural individual of villages like basic account opening, small business account opening etc. These SPV will provide services to almost three lakhs rural unbanked people. [12]
- **T-Banking:** Television is no doubt most popular entertainment medium in India. Banks want to expand their business using the popularity of television and television cable networks are set to provide banking services at doorstep. But this model are yet to gain popularity.[2]

4.3 Alternate delivery channel

- **ATM on wheel:** Low cost but suitable solution for providing banking services to rural part of India is the priority for Banks. ATM on wheel such a service where costing is much lower than of installing traditional ATM. They installed ATM on a moving van which will travel on predefined date, time and place to provide doorstep services to rural people.[4]
- **Low cost ATM:** Installing traditional ATMs are expensive as they have features like deposit,

withdrawal, transfer etc. Banks are installing ATMs where only basic features will be available like cash withdrawal, balance enquiry which is less expensive [2]

- **White label ATM:** Third party service providers installed and maintained this type of ATM. All ATM cards of all banks can be used at this ATM [2]
- **Biometric ATM:** Literacy has been increased among rural people, though it has not achieved desired result. Transactions which we make through normal ATMs are authenticated by entering 4 digits PIN but it is not easy for rural illiterate poor people. Banks are thus installing biometric ATMs through which transactions can be authenticated by thumb impression or voice command [2]

4.4 Mobile Banking

- **Internet Payments:** Through this people normally access banking site in their phone browser or pre installed apps and can do banking transaction at their ease. This is just like internet banking in your mobile phone.[8]
- **Mobile wallet:** Mobile wallet where people can store their card details in their mobile devices and can do payment or fund transfer without carrying their debit/credit card. Other than debit/credit card one can store other important documents like ticket, boarding passes in their wallet digitally.[8]
- **QR code payments:** Quick response codes another payment solution for people where people have to scan the given QR code through the app. Use of this payment mode increasing gradually. [8]

5. Findings

Rural banking is an opportunity for all commercial banks. With the development of agriculture, infrastructural activity in rural area banking opportunity also increasing in this area. India is fastest growing economy in respect of whole world. Rural economy is most potential market to support development of economy. According to reports only 41% of rural people are having own savings account and only 20% of them are availing credit facilities from bank. So in respect of savings and loan rural market is a huge opportunity for Indian banks and Government wants to utilize these banks as key player for financial inclusion and rural banking development.

According to report penetration of various banking services among rural households has been increased. Below Figure 1 will show the statistics of increasing trend of availing banking services among rural people.

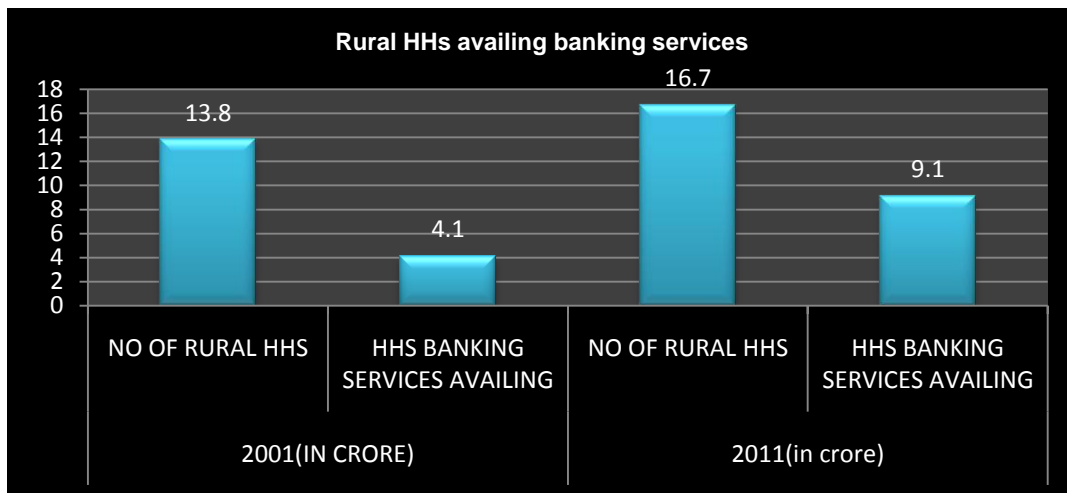


Figure-1 Rural HHs availing banking services: Source (7)

Now rural people are not only availing basic banking services from bank but also taking credit facilities for their basic agricultural activity and business activity. Before banks they used to suffer from huge indebtedness and avail loans from Mahajans and local rich people against a higher interest rate.

With the growth of banking services in rural area People are now free from this curse. Below Figure-2 will show how commercial banks are disbursing credit to rural people year wise.

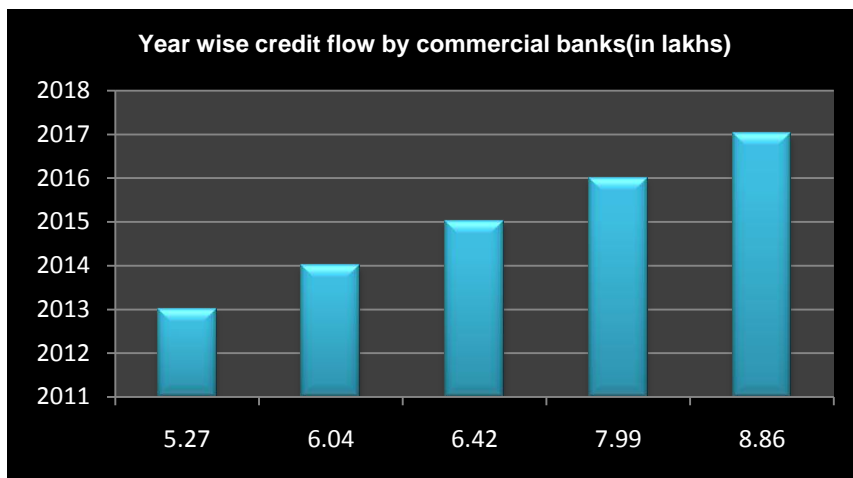


Figure-2 Year wise credit flow by Commercial Banks: Source (9)

Rural development are taking place as people are able to use banking services and this is helping them financially to achieve their savings goal as well as they can plan their professional activity by availing loan facilities from bank.

Banks are expanding their branches in rural market. But at the same time they are analyzing cost benefit of alternate channels as well to attract more business at a low cost. Below Figure-3 will show comparison of using different delivery channels.

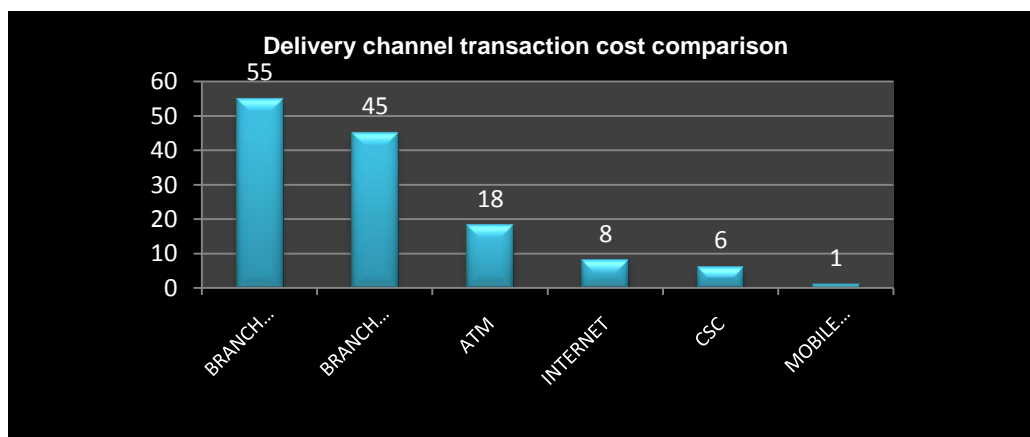


Figure-3 Delivery channel wise tranx cost comparison: Source (5)

Banks are also analyzing the channel preference among the rural people so that they can do proper planning to take all the households under banking services. Below figure-4 will

show the channel preference in respect of daily transaction and also for special transaction like account opening, loan facility etc.

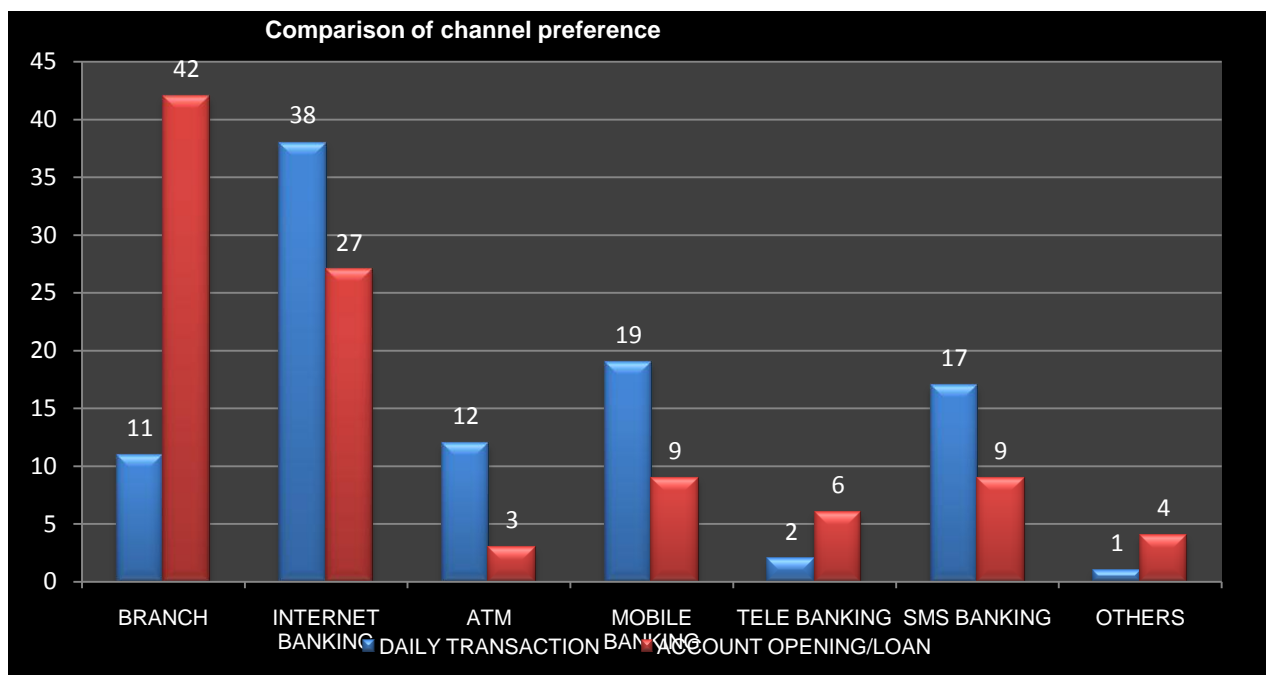


Figure-4 Comparison of channel preference: Source (6)

As an alternate delivery channel most used channel is mobile banking. It is still not most used service delivery channel but in respect growth of usage mobile banking (approx 122% in last 3 years) is the most preferred one. According to a report of Mobile Association of India Mobile banking usage is increasing in rural people more than urban area. According to survey mobile banking usage has been increased from 39% in 2012 to 57% in 2014. As per Government website mobile banking transactions has been increased from 9.47 crore in 2014 to 72 crore in 2017. Government initiative BHIM app has been downloaded by more than 2 crore people till date.

With all these initiatives rural banking is growing day by day along with rural development. People are now enriched with the help of banking service as well as they are now able to avail government facilities through banks. Overall this way rural India along with rural banking moving towards to be a part of world's fastest growing economy.

6. Suggestions

- Basic savings account has been opened by maximum no rural people. But still a huge no of people is not having account in their name for availing government facility or for own savings. People are still taking loan from local market due to lack of awareness about banking services. Indian banks should to take initiative for proper rural marketing to spread awareness about their product.
- Rural people who are having savings account still prefer to go for traditional banking as they feel much secured and comfortable to do daily transaction in a traditional way. Digital literacy program can make

them understand that how they can do maximum routine transactions at their home.

- Digital literacy program like NDLM/PMGDISHA is necessary to make them digitally literate so that they can understand per transaction cost benefit as well as where physical branch is for multiple village and far from their home they can easily do daily transaction with ease from their place.
- Alternate banking channel usage has been drastically increased among young generation but old generation is still lagging due to threat of fraud. Awareness program regarding internet security and banking security is a necessity to overcome this challenge and spread of alternate banking channel will be possible among all people irrespective of age, gender.
- IT infrastructure is an issue for rural banking development but now-a-days different service providers are providing their services at the interior rural part of India. Government has also taken initiative by starting program Bharatnet where 90k panchayats will be connected via optical fibre for easy accessibility of internet services. Banks are now tied up with these service providers as well as part of government program to achieve financial inclusion target.
- Van banking which is yet to popular in India can be an great alternative for rural India as per my suggestion as it will be facilitated with combined solution of all Service channels with low installation cost and with more comfort.

7. Implication of Study

Main focus of this paper is to discuss about initiatives taken by Indian commercial banks to expand their business in rural area to achieve financial inclusion initiative of Government and also to help to grow rural economy by supporting them with banking facilities. Normal branch expansion and permission for providing alternate banking channel service are the way how banks are expanding in rural market. This paper will show the banking habits among rural people and also channel preference by people will be clear. This study will help industry by indicating that rural people's preference about banking channels and their awareness about banking products. Bank will get to know where to focus on and how to fulfill the lagging. Bank will also get benefits to understand the cost analysis of different service delivery channels and will generate business by contributing in rural India development.

8. Conclusion

Agriculture is our tradition and it is core of our culture and economy. Now-a-days rural economy is towards emerging trends. Through contract farming agro based activities are

developing. White revolution makes India world's fastest dairy product markets. Blue revolution also helps to increase fish production of India. So growing rural economy is a huge opportunity for India banks to expand their business in rural India.

Government is also taking initiative to provide banking facilities to take this money in mainstream of Indian economy. Through financial inclusion they are trying to reach to all the rural households.

Banks are expanding their branch, ATM in remote place of India. They are also providing alternate banking solutions like mobile banking, internet banking, van banking, business correspondent, common service centre etc.

Beside all these initiatives both Government and Indian Banks should take care of proper marketing of rural banking products, government facilities through bank channels, literacy program, and digital literacy awareness program for the success of these initiatives.

References

- Khan A (2018), 'HDFC to tap rural market through three lakh banking correspondents', The New INDIAN EXPRESS, online edition, link: <http://www.newindianexpress.com/business/2018/jul/04/hdfc-to-tap-rural-market-through-three-lakh-banking-correspondents-1838186.html>
- Reddy N, 'Financial Inclusion - Drive to Diverse Business Models', online content, link: <http://www.allbankingsolutions.com/Articles/Articles-NSNR-Financial-inclusion-drive-to-diverse-business-models.shtml>
- Buerkle T (2015), 'Consumer banking comes to rural India', Institutional Investor, Online Edition, Link : <https://www.institutionalinvestor.com/article/b14z9v1vbh4wkj/consumer-banking-comes-to-rural-india>
- BS Reporter (2014), 'ICICI Bank's 'Branch on Wheels' to cover 100 unbanked villages', Business Standard, Online Edition, Link : https://www.business-standard.com/article/finance/icici-bank-s-branch-on-wheels-to-cover-100-unbanked-villages-114022600842_1.html
- Digital India programme by Government of India Ministry of Electronics and Information Technology (2017), Link: https://traif.gov.in/sites/default/files/presentations_&cv/Day-2_24Aug2017/Session2_Nnal%20Bband%20Plan/Digital_India_Premjit_Lal.pdf
- Report on Trend and progress of Banking in India 2017-18 by Reserve bank Of India, Link: https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2018_FE9E97E7AF7024A4B94321734CD76DD4F.PDF
- Overview and Progress on Financial Inclusion by Government of India Ministry of Finance, Link: <https://financialservices.gov.in/sites/default/files/Overview%20and%20Progress%20on%20Financial%20Inclusion%20.pdf>
- M-Wallet: Scenario Post Demonetisation by ASSOCHAM (2016), Link: http://www.assochem.org/upload/docs/M-Wallet_Report_press.pdf
- https://www.nabard.org/auth/writereaddata/tender/0908181051NABARD-AR_2017-18%20English.pdf
- Subramanian L S,(2013) " A Study of Branchless Banking in achieving Financial Inclusion in India" " BVIMSR's Journal of Management Research", Vol. 5 Issue - 2
- Anand, M. B. and Sreenivas, D. L., (2013) "A STUDY ON BRANCHLESS BANKING IN INDIA", "International Journal of Development Research", ISSN: 2230-9926, Vol. 3, Issue, 8, pp.001-006,
- Sundaram N & Sriram M, (2015)"Strategies to reach financial inclusion in India through branchless banking : A study with reference to Business Correspondent models in Vellore district to Tamilnadu ,India", "International Journal of emerging technologies in computational and Applied sciences", ISSN (Print): 2279-0047 ISSN (Online): 2279-0055, 13(1), pp.84-88.
- Rajasree K R Vidya Vijayan(2018), " Branchless Banking In India", "International Journal of Pure and Applied Mathematics", ISSN: 1314-3395, Volume 118 No. 20 2018, 4221-4225.
- Sowmya Hegde & Veena D Kotian(2016), "Branchless Banking For The Poor As A Part Of Financial Inclusion", "International Journal of Scientific Research and Modern Education (IJSRME)", ISSN (Online): 2455 – 5630, Volume I, Issue II, 2016
- V Devadevan(2013), "Mobile Banking in India Issues & Challenges", "International Journal of Emerging Technology and Advanced Engineering", ISSN 2250-2459, Volume 3, Issue 6, 2013
- Vinod Kumar Gupta, Renu Bagoria, Neha Bagoria (2013), "Mobile Banking Services as Adoption and Challenges: A Case of M-Banking in India (Positive and Negative impacts, Mobile Growth in India, Adoption Models and Mobile Technology)", "International Journal of Scientific and Research Publications", ISSN 2250-3153, Volume 3, Issue 1, 2013