

## Banking development in rural area: A tool for rural financial inclusion

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### Abstract

In India nearly 70% of population is living in rural areas. In India all regions are not equally developed or included in the growth process resulting in unequal distribution of benefits of economic development among the people across the country. There wide gap between rural and urban regions in terms of economic development. Financial exclusion of rural people is one of the causes for rural poverty. In India compared to urban regions, rural India is deprived of institutional and non- institutional finance. Institutional finance through Banks is the lifeblood of modern economic system without which no system can survive. Adequate Banks/institutional credit is considered to be the most important factor, which if suitably provided, will go a long way to put the Indian rural economy on a sound footing (Selvaraj 1998). So rural development and their functions have been on the priority agenda of our policy makers since independence and considerable efforts have been made to develop the rural credit system as means of rural development (Joshi 1997, Tyagi and Singh 1998). Rural development is not merely development of rural areas but also the transforming of the rural people into self-reliant and self-sustaining communities. Through the weapon called 'Financial Inclusion' that is achieved through rural banking development and thereby providing financial services to all regions of the country and achieve the balanced development of the economy. In this article, through the analysis of secondary data, an attempt has been made to highlight the role of banks in the development of rural India through 'Financial inclusion'.

**Keywords:** rural banking, rural development, financial inclusion, banking and financial services

### Introduction

*"The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little."*

- Franklin D. Roosevelt

In India nearly 70% of population is living in rural areas. In India all regions are not equally developed or included in the growth process resulting in unequal distribution of benefits of economic development among the people across the country. There wide gap between rural and urban regions in terms of economic development. This is due to non-availability of good education, proper medical facilities and transport and communication facilities, banking services and adequate financial facilities. For balanced development of the country rural development is very much needed. It is achieved through rural inclusion by extending banking services to rural regions.

### Objectives of the Study

The purpose of the study is to evaluate the need for rural Financial Inclusion in India and to understand the role of Banks in rural development through the financial inclusion weapon – with the following specific objective this study has been taken

1. To study the concept of Financial Inclusion, Financial Exclusion, and Rural Development
2. To evaluate the role of banks towards Financial Inclusion.
3. To analyse the challenges in financial inclusion
4. To offer suggestions to strengthen the role of banks in Financial Inclusion rural development.

### Need for the Study

Even after 6 decades of independence, banking facilities has not reached to rural and unprivileged sector of the society. This

led to financial gap and instability among the rural people. Now a day's Govt. and RBI have taken number of policies to include and to build the financial strength of rural areas. Due to absence of proper banking avenues, people in rural India are not able to channelize their savings. Through Financial Inclusion saving habit can be developed by educating people to utilize their funds in various Financial Instruments rather than investing in building, lands and bullion etc. Secondly, Absence of formal credit channels, farmers and deprived section of society are dependent mainly upon the private money lenders who charge exorbitant interest rates. This type of money lending does not result in increase in GDP in the country. By providing easy and timely financial facilities through formal channels like banks, micro-finance institutions and co-operative credit societies to rural people rural inclusion vis-à-vis rural development can be achieved.

### Methodology of Study and Research Design

This study is descriptive in nature and the data collected through the available secondary sources presented in the form of tables and analysis and inferences were drawn based on available data.

In this paper the Progress of rural financial inclusion in India is assessed through the penetration of bank branch offices, number of rural households availing banking services and establishment of ATMs in rural India.

### Conceptual clarity

#### i) Rural banking development

The term rural development refers to a wide range of developmental programmes aimed at developing rural areas through the creation of infrastructure facilities to better the condition of rural people. In India rural development is

recognized as an indispensable for achieving inclusive economic development and welfare of common masses. *Rural development is not merely development of rural areas but also the development of the rural people into self-reliant and self-sustaining modern little communities.* Rural development is, therefore, the development of rural areas in such a way that each component of rural life changes in a desired direction and in sympathy with the other component. Besides, rural development also encompassed structured changes in the socio-economic situation in the rural areas in order that human welfare, which is the primary goal of all development, is secured at the earliest. Rural development, thus, should embrace all the objectives of enrichment and betterment of the overall quality of the rural life through appropriate development of manpower resources, infrastructural facilities and provision of minimum needs and livelihood.

**ii) Financial Inclusion**

Means providing financial services to all sectors of the society which includes the underprivileged, the poor and the disadvantaged people. It does not only mean to open Savings Account of people but it also includes providing financial advice, insurance and credit services for improving the living conditions of poor farmers, artisans and rural non-farm enterprises. The Rangarajan Committee (2008) has defined Financial Inclusion as -“Financial Inclusion is the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.”

**iii) Financial Exclusion**

Financial Exclusion is the inability of individuals, households or groups to access financial services in an appropriate form. Financial Exclusion in terms of lack of access to credit from formal institutions is high for small and marginal farmers.

**Indicators of financial inclusion**

As per World bank, the indicators of financial inclusion are- the penetration of bank branches or point of sale (POS) devices in rural areas, average savings balances, number of transactions per account, number of electronic payments made, the public awareness and understanding of financial products.

In this paper the Progress of rural financial inclusion in India is assessed through the indicators like penetration of bank branch offices, number of rural households availing banking services, number of individual savings bank account, individual Saving Bank Deposits’ Amount Outstanding and the establishment of ATMs in rural India.

**Role of Banking and non-banking financial institutions in rural financial inclusion**

In India compared to non-banking financial institutions, banking institutions are playing major role in rural financial inclusion and rural development. In extending financial facilities through banking is viable and effective. In this direction RBI the apex institution of the country and the government of India have taken number of novel schemes and programmes to extend banking services to unbanked and under banked regions and trying to bring these regions into formal channels like banks, micro-finance institutions and co-operative credit societies to rural people rural inclusion vis-à-vis rural development can be achieved.

In this paper the role of banking is analysed by taking secondary data from published sources.

**Analysis and interpretation**

In this paper the Progress of rural financial inclusion in India is assessed through the penetration of bank branch offices, number of rural households availing banking services and establishment of ATMs in rural India.

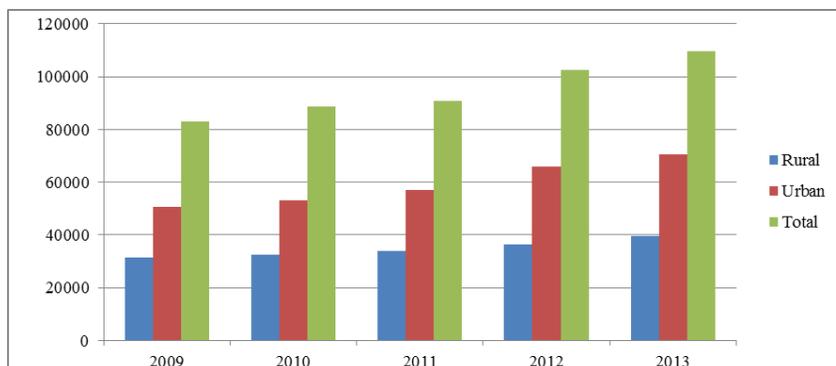
**Table 1:** Year-wise No. of branches of SCBs operating during Last five years in Rural and Urban Areas

Year	Rural		Urban		Total
	No of Branches	% of Branches	No of Branches	% of Branches	No of Branches
31-03-2009	31476	38.46	50735	61.54	83085
31-03- 2010	32493	38.02	52987	61.98	88721
31-03- 2011	33832	37.29	56900	62.71	90732
31-03-2012	36,503	35.66	65,874	64.34	102377
31-03-2013	39,439	35.92	70,372	64.08	109811

Source: RBI Database on Indian Economy

Analysis & Interpretation: The above table indicates the number of branches functioning between the years 2009 to 2013 in four regions. But there is a steady growth (around

31476 to 39,439 range) in number of branches opened in rural areas compared to the other regions.



**Fig 1:** Bank Group-wise Number of branches functioning in rural and urban regions as on 31-03-2009 and 31.03.2013

**Table 2:** No of new bank branch offices opened in rural, semi urban, urban and Metropolitan by all banks from 2005-06 to 2012-13

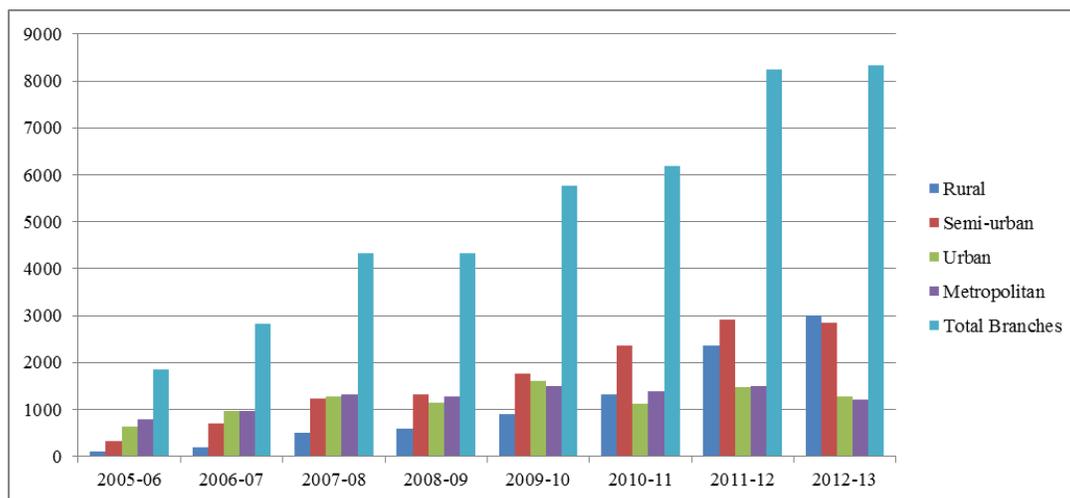
Year	Rural		Semi-Urban		Urban		Metropolitan		Total No of branches
	No of branches	% of branches							
2005-06	99	5.35	316	17.08	640	34.59	795	42.97	1850
2006-07	192	6.818	696	24.715	973	34.55	955	33.91	2816
2007-08	490	11.34	1228	28.43	1277	29.57	1323	30.64	4318
2008-09	592	13.675	1323	30.56	1150	26.56	1264	29.19	4329
2009-10	901	15.61	1758	30.47	1608	27.87	1502	26.04	5769
2010-11	1319	21.346	2364	38.25	1112	17.99	1384	22.39	6179
2011-12	2368	28.68	2913	35.28	1469	17.79	1506	18.24	8256
2012-13	3000	35.984	2843	34.10	1284	15.40	1210	14.51	8337
Total	8961	21.41	13441	32.11	9513	22.72	9939	23.75	41854

Source: Source: RBI, Database

**Analysis & Interpretation**

The above table indicates the number of branches opened during the last 8 years in different regions. During 2012-13 number of branches shows decreasing trend in all the regions, which may be due to the development of newer products like mobile banking and internet banking, where customers can access directly without taking assistance from the branches.

However, the number of branches opened in urban areas is more than the number of branches opened in rural areas. During the years 2008-09 and 2009-10 more than 80% branches are opened in urban areas, during 2010-11 it was over 74% and 66.43% and 60.22% in 2011-12 and 2012-13 respectively.



**Fig 2:** No of new bank branch offices opened in rural, semi urban, urban and Metropolitan by all banks from 2005-06 to 2012-13

**Table 3:** Position of households availing banking services during two Census 2001 and 2011

As per Census 2001				As per Census 2011		
House holds	Total Number	No of households availing banking services	Percent	No of households availing banking services	Total Number	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Source: Census of India, 2011

**Analysis and Interpretation**

The above table shows the widening gap between two censuses in availing banking services by rural households compared to urban households. Yet, there is a remarkable improvement/

progress by 24.30% in getting access to the banking services due to the efforts of RBI and its apex body ‘NABARD’. This shows that there is drastic improvement in rural financial inclusion over two census periods.

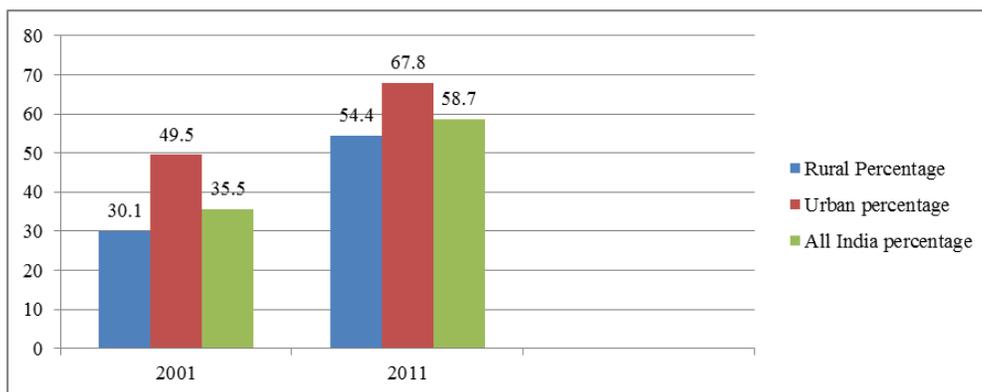


Fig 3: Percentage of people availing banking services in Rural, Urban and at all India level

Table 4: Region wise Number of Individual Saving Bank Deposits Accounts and individual Saving Bank Deposits’ Amount Outstanding

Population group	No. of Individual Saving Bank Deposit Accounts(in Millions)		Individual Saving Bank Deposits’ Amount Outstanding (₹ billion)		Credit accounts (million)		Credit outstanding (₹ billion)	
	2006	2010	2006	2010	2006	2010	2006	2010
Rural	104	167	962	1703	29	36	1261	2493
Semi-Urban	85	136	1124	2155	21	27	1514	3200
Urban	68	97	1246	2381	13	16	2458	5585
Metropolitan	71	100	5170	9970	23	40	9905	22174
Total	328	500	8502	16209	86	119	15138	33452

RBI, Database on Indian Economy

**Analysis and interpretation**

From the above table it is inferred that there is increase in number of individual Savings Deposit Accounts over four years period but in percentage terms of amount of increase is not satisfactory. The percentage increase in number of SBA/Cs in rural area is 37.72% while percentage increase in number of SBA/Cs is 43% urban and 41% in metropolitan area. But terms of deposits the urban and metropolitan regions have lions share i.e. out of ₹16209billion these two alone have ₹12125 billion. In terms percentage the share 71% and the share of rural is only 10% and semi-urban share is 13%. This is a clear indication that there is rural exclusion. In terms of credit also major beneficiaries are urban and metropolitan people. the outstanding credit is Just 8% in rural area and 10% in semi urban areas while it is 16% and 65% in metropolitan areas in 2006, in 2010 the picture has not improved figures of outstanding credit for the period are just over 7% in rural, 7% in semi urban area, 17% in urban and 66% in metropolitan area showing the extent of financial inclusion of rural India.

Table 5: Region wise No of ATMs of all banks over last 4 years

Year	Rural	Semi-Urban	Urban	Metropolitan	Total
2009-10	5196	14478	19763	20716	57,765
2010-11	7155	18082	24062	25206	76,871
2011-12	8639	22677	31006	33364	99218
2012-13	11564	27710	36111	38629	114014

Source: RBI, Database on Indian Economy

**Analysis and interpretation**

The above table indicates the total number of ATMs of all the four categories of banks in different regions, where the number of ATMs in rural India are very minimum, when compared to other regions. Just 10.14% of ATMs are working in rural areas in 2013.

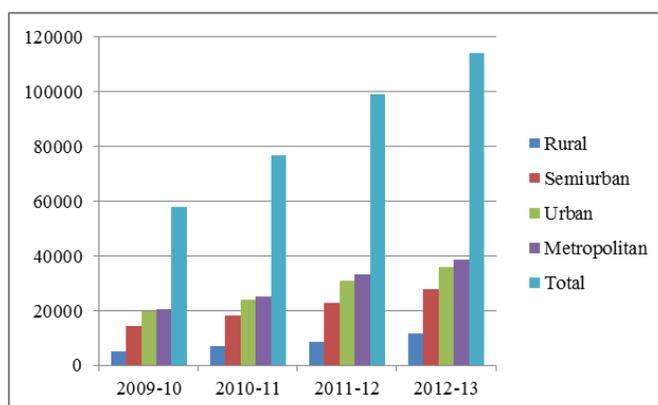


Fig 4: Region wise No of ATMs of all banks over in the last 4 financial years 2009-10, 2010-11, 2011-12 and 2012-13

**Challenges before Financial Inclusion**

- The major challenge in rural financial inclusion is lack of financial literacy among rural masses compared to urban people.
- Inertia and lack of commitment among the bank and the government officials in implementing novel financial inclusion programmes and schemes of the RBI and GOI.
- Another Major constraint in achieving Financial Inclusion in India is *lack of technology* i.e. Non-functional hand-held device, unavailability of power, network and limited number of technology service providers to cover the unbanked villages.
- Policy changes to improve financial inclusion were hurriedly executed without setting up an appropriate regulatory authority and proper consumer education. RBI launched “National strategy for financial Education” on July 16, 2012 with a vision to build “A financially empowered India” with the goals to create awareness and educate consumers on access to financial services,

availability of various types of products & their features, change attitude to translate *knowledge into practice and to educate consumers* regarding the various financial services.

- Increasing transaction cost to banking institutions is yet another major challenge for banking institutions to serve in rural areas.

### Findings and suggestions

Major findings of the study are

- Ineffective implementation of novel financial inclusion programmes and schemes of the RBI and GOI
- Poor governance mechanism
- Poor infrastructure facilities to provide banking services
- Urban orientation of Private sector banks

### Suggestions

- Create awareness in rural people and educate rural them to access financial services, availability of various types of banking products and their features.
- Bring effective governance making banking and Non-banking financial institutions accountability
- The bank and the government officials be made more responsible and be accountable for the failure in implementing novel financial inclusion programmes and schemes of the RBI and GOI.
- The public should understand their rights and responsibilities as clients of financial services.

### Conclusion

Compared to pre nationalization in the nationalization period there is remarkable increase in the reach of Commercial banks, Regional Rural Banks, Co-operative credit institutions and to non-banking financial institutions in rural areas. Still majority of rural population is away from formal financial services. However with efforts and initiatives of GOI and the RBI number people availing financial services are on increase. The progress in rural India in the form of rising education level, increasing incomes, growing consumption expenditure rural India, public policy focus on inclusive growth several Govt. schemes aimed at rural India and emerging developments are providing banks an immense opportunity to grow their business and bring prosperity to the aspiring poor through financial inclusion programmes. Further novel schemes of central government like Payment of wages, social security payments / other benefits directly into beneficiary bank Accounts through EBT create several opportunities for banks to play an active role in rural India. To conclude banks should take a step forward to formulate specific plans to enhance Financial Inclusion of unbanked section of the society. At the same time they should device the strategies to reduce their transaction cost to actively participate in the process of Financial Inclusion treating it as Opportunity and Social Responsibility.

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