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### Government Initiatives for Rural Banking: An Overview

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**Abstract:** The present paper is an attempt to understand the various initiatives taken by the government for rural banking sector in India. In this regard secondary data is being considered. The main objective of the paper to understand the existing government readiness towards cash less society. Though is a conceptual paper and it will give a direction for undertaking the empirical study on digital transactions and will be added contribution to the existing literature.

**Key words:** Rural banking, Information technology, Government, Digital Transactions

#### AN OVERVIEW

Indian banking sector has a rich history and heritage. Banking is a business in financial intermediation where one group of people deposits money with the bank and other group utilize the same money by availing loan from the bank for income generating activities. The growth of an economy largely depends on the level of economic development. The performance of the financial sector adds value in terms of overall economic growth that a country aims at. Traditionally, the role of banking sector was restricted to provide finance to the needy sectors but lack of access to the finance sectors often created obstacles for the desired growth level. In most of the developing countries, access to finance is a problem. As is usually seen, bank lending is clearly biased to those borrowers who provide collaterals and therefore considered bankable. Due to scarcity of funds, credit starved people often borrow from unorganized players at usurious rates. With changing times, demand for certain other types of financial products have also emerged slowly. India is a developing economy where all the sectors have not yet been able to derive benefits of banking services which would have helped a rapid growth of the economy.

The banking system provides a cash management system to its customers in the form of various services. People have confidence in banks and therefore they deposit their hard earned money in banks. The banking system has a past history. It has undergone through a series of changes. But the core of banking remains the same. Although, the basic purpose of banks is to provide credit, today it is able to play a greater financial role where the banks have transformed themselves as financial supermarket. With changing demand of the customers, the product offerings of banks have also seen lots of changes. Thus, along with dispensation of credit and deposit taking services, the banks have also started providing other major financial products like insurance, mutual funds, shares etc. so as to increase their reach and meet the growing demand of customers. Technology also started playing an important role so as to provide better value added services to its customers.

The basic functions of a bank can be summarized as follows:

- To provide safety to the savings of customers
- To create credit and increase supply of money
- To encourage public confidence in the financial system
- To mobilize the savings of public
- To increase its network so as to reach every segment of the society
- To provide financial services to all customers irrespective of their level of income
- To bring in social equity by providing financial services to every stratum of the society

The banking sector in India has expanded rapidly under a liberalized environment. The supervision of RBI has also generated confidence among general public. The system is so strong that the global financial turmoil of 2008 failed to unsettle the Indian banking industry. A robust regulatory framework of Indian banking has helped to maintain India's growth momentum. The Government of India has adequately addressed the need of the banking sector for the development of society as well as various sectors. As a result of this, some of the sectors like MSME, agriculture and allied sector and non allied sectors etc. are now able to secure finance to maintain the profitability and face the market competition.

But, somehow the Indian banking sector's presence and impact in rural and semi-urban areas has been lackluster. Villages of India have remained largely unbanked. Such financial exclusion is a huge problem. Indian banking therefore can be termed as "Class Banking", i.e., mainly serving the needs of well heeled. The Government of India is now trying to correct this anomaly and orient Indian Banking in to "Mass Banking". Traditionally, the people who are excluded from formal financial system are dependent heavily on local moneylenders to meet their financial requirements at usurious rates and this often becomes a kind of financial exploitation. This becomes an accepted norm for poor people. The failure of formal banking system to reach this group of people is not a good sign and this needs certain policy interventions. Previously, the governments as well as RBI, with the help of National Bank for Rural & Agricultural Development (NABARD), had introduced the concept of microfinance. The concept was not new in the world of financial markets. In India, it went on to become a new avenue to meet the financial requirements of the poor and extremely poor, who are otherwise, treated as unbankable by organized formal financial sector players. But the penetration through microfinance may not be able to uplift the socio economic status of the people. This forced the decision makers to think alternatively. And the resultant idea eventually was the concept of financial inclusion. The process has been able to generate the much needed financial boost for

the poor. The programme has been able to help the transformation of banking from “Class Banking” to “Mass Banking” in a great way. The implementation of Pradhan Mantri Jan Dhan Yojana (PMJDY) is the latest initiative in this regard. The programme has been able to rope in a substantial number of people under the formal banking system but the success of the programme is not beyond any doubts.

Rural banking and financial inclusion may be treated as synonyms as the majority of the rural population is still not included in the inclusive growth. Therefore the concept of financial inclusion becomes a challenge for the Indian economy. Financial inclusion empowers improved and better sustainable social and economic development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions.

### **OBJECTIVES OF THE STUDY**

- ✓ To understand various initiatives taken by the central government for the development of rural banking.
- ✓ To undertake empirical analysis on digital banking.

### **METHODOLOGY OF THE STUDY**

The present study is based on secondary data. For the purpose of the study various libraries visited and websites and reviewed.

From Census India, 2011 data we can see that rural area is still remaining unbanked.

**Table 1**  
**Unbanked Population**

<i>Census 2011 Data</i>	<i>Rural</i>	<i>Urban</i>	<i>Total</i>
Total households	168	79	247
Households without access to banking facilities	77	25	102
As a % of total households in respective segments	46%	32%	41%
As a % of total households in the country without access to banking facilities	75%	25%	—

*Source: [http://censusindia.gov.in/2011-Common/NSDI/Houses\\_Household.pdf](http://censusindia.gov.in/2011-Common/NSDI/Houses_Household.pdf)*

Over the years, various steps have been taken by the government to increase the contribution of people in the financial system of India. In 1969, a major renovate in the banking sector took place with Nationalization of all the Banks existing in India. In the year 1981, The National Bank for Agriculture and Rural Development (NABARD) was established. The main aim of establishing NABARD was to promote sustainable and impartial agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

Swarnajayanti Gram Swarojgar Yojana (SGSY) was introduced in the year 1999 with a vision to make paths of self-employment available to the poor, specifically Below Poverty Line (BPL) families residing in rural areas. The aim was to assist families by giving training and capacity building measures. The concept of self Help Groups (SHGs) was adopted in which the people were separated into groups who would carry out activities for their livelihood by providing income generating assets.

The establishment of Regional Rural Banks in India was an important landmark in the banking history of the country. These banks were established under the provision of the Regional Rural Banks Ordinance, 1975, by the government on September 27, 1975. The main objective of establishing the regional rural banks was to provide credit and other facilities especially to the small and marginal farmers, agricultural laborers, and small entrepreneurs in the rural areas. It's the Narasimham Committee that theorized the foundation of Regional Rural Banks in India. The committee felt the need of regionally oriented rural banks that would address the problems and requirements of the rural people in India.

In order to encourage rural masses to save in banks, saving bank accounts with zero balance accounts i.e. no minimum balance required or No Frills account has been introduced by Government of India. Small overdraft facility is also provided along with moderate operating charges in this system.

Kisan Credit Card System was specially designed to provide farmers' credit requirements. The scheme enables a single window system for providing credit in activities like cultivation of crops, post harvesting expenditure, maintenance cost for assets used in agriculture, and investment requirements in agriculture and allied activities. Kisan Credit Card (KCC) is applicable to all commercial banks, regional rural banks and cooperatives.

The Government of India and the Reserve Bank of India have been making intensive efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades are nationalization of banks, building up of vigorous branch network of scheduled commercial banks, cooperatives and regional rural banks, introduction of authorized priority sector lending targets, lead bank scheme, formation of self-help groups, permitting Business Facilitators (BFs) and Business Correspondents (BCs) to be appointed by banks to provide door step delivery of banking services, zero balance accounts etc. The fundamental objective of all these initiatives is to provide the financial services to the large section of the financially excluded Indian population. Relaxations in the BC model were made to bridge the problem. This enhanced the step of branch opening, with more branches being opened in rural and semi-urban areas. Though, the number of branches per 100,000 of population in rural and semi-urban areas is still less than half of that in urban and metropolitan areas which we can see from the below table of branch expansion:

**Table 2**  
**Expansion of Bank Branches**

<i>As on</i> <i>March</i>	<i>Number of Branches</i> <i>(in million)</i>			<i>Estimated population*</i> <i>population</i>			<i>Branches/ 100,000</i>		
	<i>Rural+Semi-urban</i>	<i>Urban + Metropolitan</i>	<i>Total</i>	<i>Rural + Semi-urban</i>	<i>Urban + Metropolitan</i>	<i>Total</i>	<i>Rural + Semi-urban</i>	<i>Urban+ Metropolitan</i>	<i>Total</i>
2001	44,905	20,713	65,618	851	177	1008	5.3	11.7	6.4
2006	45,673	23,904	69,577	920	195	1115	5.0	12.3	6.2
2010	53,086	31,072	85,158	980	211	1191	5.4	15.2	7.2
2014	76,753	40,958	1,17,711	1044	228	1272	7.3	17.9	9.2
2015	82,358	43,716	1,26,074	1061	233	1294	7.8	18.7	9.7
June 2015	82,794	43,910	1,26,704	1065	235	1300	7.8	18.7	9.7

Source: <https://rbi.org.in/scripts/PublicationReportDetails.aspx?ID=836#CH1>

Microfinance is one of the tools provided by the government which can help this segment of society to access the formal credit system to fulfill their financial needs and reach the trajectory of growth highway. Though, there are different models for microfinance, the self-help-group (SHG)-Bank Linkage Programme has emerged as the major microfinance program in the country. It is being implemented by commercial banks, regional rural banks (RRBs) and cooperative banks and NGO's. The SHG's speed up the rural development as funding agencies and rural masses both involve in development process. The concept of microfinance in India based on the philosophy of Grameen Bank of Bangladesh developed to offer resources and spectrum of financial services to poor people in rural area. NABARD initiated micro finance initiative-Self Help Group Bank in the year 1992 for unbanked population in association with Bank and Non-Government Organizations. In this case the members of Self-help group pool their small savings regularly at a prefixed amount on a daily or weekly basis and SHG s provide loan to their members for a fixed period. This is essentially association of 15 to 20 people. NABARD estimates that there Rs 2.2 million SHGs in India, representing 33 million members that have taken loans from banks under its linkage program to date<sup>1</sup>.

We can see that from the above figure the number of SHGs with savings linkage, credit disbursed during the year and bank loans outstanding as well as the quantum of savings outstanding, loan disbursed during the year and total loan outstanding had shown positive growth during the past three years. Year 2015-16 was particularly positive for the growth of SHG-BLP.

In 2006 RBI permitted banks to engage intermediaries to provide banking services. These intermediaries called Business Correspondents (BCs) and Business Facilitators (BFs) who were allowed to provide banking

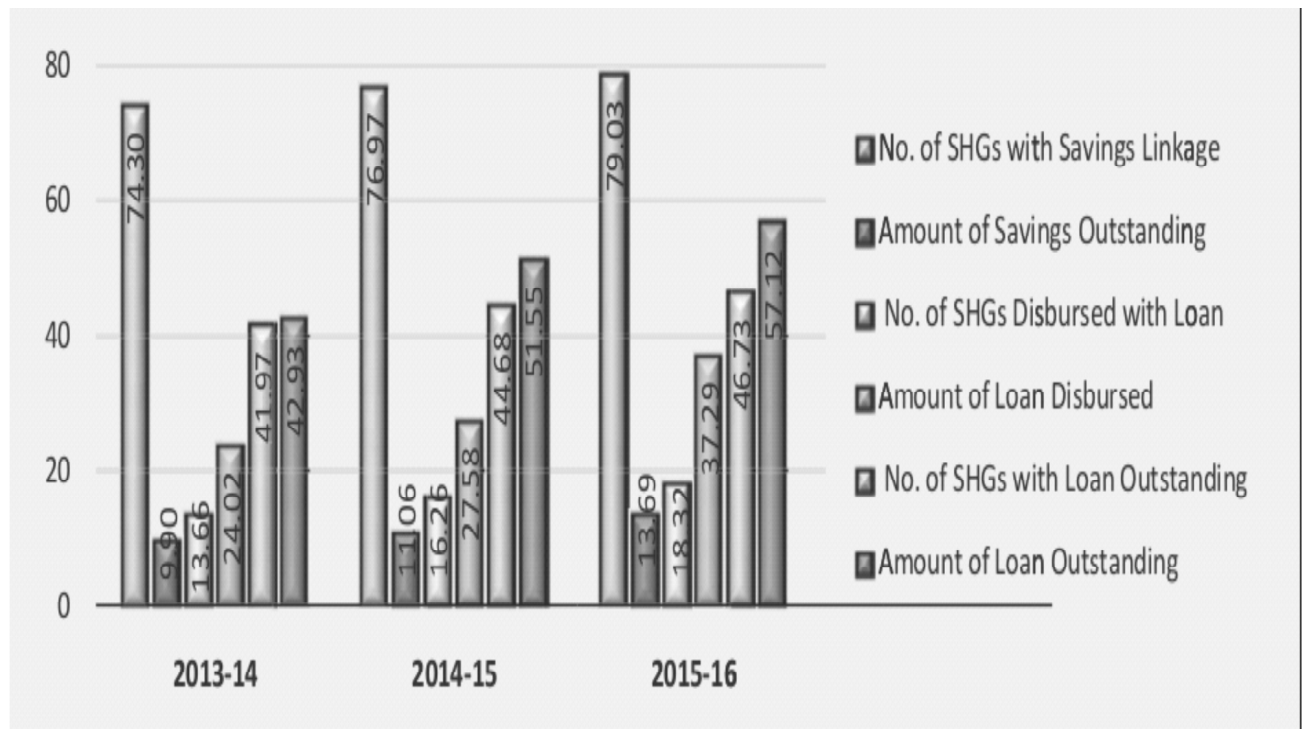


Figure 1: Progress of SHG during Last 3 Years (No. in Lakhs, amount in Crores)

Source: Status in Microfinance in India, 2015-16, NABARD Report, Pg no 8

services as agents of banks other than bank premises. They are permitted to carry out transactions on behalf of the bank as agents. The BFs can refer clients, pursue the client's proposal and help the bank to carry out its transactions but not on behalf of bank. The products that can be canvassed by the BC also as Business facilitator are:

- a) Loans against Valuable securities/own deposits
- b) Gold Loans
- c) General purpose Credit card (GCC)
- d) Kisan Credit Card (KCC)
- e) Loans to SHGs/JLGs
- f) Current Account
- g) Savings Bank account (other than No Frills Account)
- h) Term Deposits
- I) Recurring Deposits
- j) Mutual funds on a referral basis
- k) Insurance (Life and Non-Life), Pension and any other third party financial

Know your Customer (KYC) has been initiated to a great extent to encourage wider financial participation in rural areas. Due to unavailability of various documents required to open savings bank accounts, Banks have now announced to provide any documents as identity as evidence.

A major scheme aimed toward financial inclusion, Pradhan Mantri Jan Dhan Yojana, was launched on 28 August 2014, to provide every household with a bank account and basic insurance cover. It is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking or Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. Account can be opened in any bank branch or Business Correspondent outlet. PMJDY accounts are being opened with Zero balance. However, if the account-holder wishes to get cheque book, he or she will have to fulfill minimum balance criteria. This scheme received considerable response and around 15m accounts were opened on the day of its launch. As of 22 June 2016, 221.8 million accounts (with total balance of INR391.53 billion) have been opened under this scheme<sup>2</sup>.

**Table 3**  
**PMJDY Details (as on 29.03.2017)**

<i>Bank Name</i>	<i>Rural</i>	<i>Urban</i>	<i>Total</i>	<i>No of RuPay Cards</i>	<i>Aadhaar Seeded</i>	<i>Balance in Accounts</i>
Public Sector Bank	12.34	10.28	22.61	17.60	15.10	49265.50
Regional Rural Bank	3.98	0.66	4.64	3.54	2.80	11608.91
Private Banks	0.55	0.37	0.91	0.85	0.44	2098.02
Total	16.87	11.30	28.17	21.99	18.35	62972.43

*Source: <https://www.pmjdy.gov.in/account>*



The success of PMJDY will largely depend on reaching the poorest of the poor in the country where 25 per cent of the people live with an income of less than Rs 40/day. The serious feature of PMJDY is the delivery of banking services to the un-banked and under-banked considering the constraints of broadband connectivity, technology and financial literacy. The immediate need is to build economic activity around unbanked/under banked villages so that the newly opened bank accounts remain active with regular transaction.

The year has seen many positive turn to the microfinance sector, despite initial roadblocks; the newest is the announcement of the Micro Units Development Refinance Agency (MUDRA) Bank by the Union Finance Minister in his budget speech in April, 2015. The primary objective of this bank is to “fund the unfunded”, drawing parallels with the “banking the un-banked” model. The Government encourages the microfinance sector across institutional and operational functions to pursue MUDRA Bank’s objective because it acknowledges that “small business units” play a important role in GDP growth and employment. It was decided that MUDRA will monitor the development of PMMY. The overall performance of the Yojana indicates that the target has been achieved during the year. As against the target of Rs.122188 crore, the Banks and MFIs together have disbursed Rs 132954.73 crore, thereby achieving 109%. The achievements by Public Sector Banks indicate a substantial credit growth in this segment. Based on the data collected from the PSBs, it was seen that the disbursement by these banks in this segment was around Rs. 33,000 crore during the 2014-15 which has recorded a growth of 70% during 2015-16<sup>3</sup>.

## CONCLUSION

The various initiatives taken by the government for rural banking is quite appreciable. Earlier banking system was different and the present system is quite digital. After mobile banking a revolution started in the banking sector. It is no doubt as on date we might not have 100% in rural banking but initiatives taken will definitely give the results sooner or later. The major problem of illiteracy is a challenge for the banking sector in rural areas. At the same time our rural India is completely ready for digital transactions. But sooner or later the dream of digital transactions is possible with the involvement of everyone. The is not only the responsibility of Government it is also duty of every literate citizen to participate in the movement.

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