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An Empirical Study on Rural Banking Perspectives Towards Virudhachalam Taluk

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Abstract: Most of the population in India lives in rural areas. They are away from the banking services. Therefore India has adopted a multi pronged approach towards financial inclusion as has been the case in several other countries. Though the term financial inclusion is of recent origin, the efforts to bring the poorer and weaker segments of the society within the fold of the formal banking system were initiated both by the Reserve Bank and the Government. The importance of rural banking has been recognized by the country's planners and policy makers since independence. All India Rural Credit Survey and All India Rural Credit Review paved the way for commercial banks entering into rural banking in a big way. Rural banking is graduating to be an attractive proposition for commercial banks. Commercial banks high transaction cost in their rural branches. The problematic issues in rural banking of commercial banks are lack of infrastructure, reluctance of staff to serve in remote rural areas, a large number of accounts dealing in small amounts, difficulty in getting financial information on rural borrowers, leading to some amount of uncertainty in the minds of the bankers and lack of security for carrying cash in remote areas by mobile banking. RBI and the government therefore plan to extend financial services to every nook and corner in the next five years. This is an uphill task by any standard rural banking. Furthermore, banks should tailor their product and service mix to meet rural needs, and adapt their delivery models to ensure commercial viability of their rural banking operations.

Keywords: Rural Banking, Financial Inclusion, Rural Development, Regional Rural Banks.

INTRODUCTION

Rural banking in India has started since the establishment of banking sector in India. Rural Banks in those days mainly focused upon the agro sector. Today, commercial banks and Regional rural banks in India are penetrating every corner of the country are extending a helping hand in the growth process of the rural sector in the country. Rural banking in India has been the subject of study Survey Committee Report in 1954, literally thousands of reports have examined and investigated the problems relating to the credit

delivery for agriculture and rural area. Latest magnum opus on the subject is the National Agricultural Credit Review report 2000. The Expert Committee on Rural Credit (Chairman: Professor V.S.Vyas) submitted its report in 2002. One more High Power Committee headed by Professor Vyas set up by the Reserve Bank of India recently to review and advice on improving credit delivery to agriculture has also given its report. As the majority of the Indian population lives in rural areas, there is an urgent need to deliver citizen services to them in a cost effective way with assured quality. This involves mainly the following:

- Enabling the ready access at the place of the villagers.
- Reducing transaction cost to make the services affordable.
- Reduction in delays.
- Improving the quality of services available.

The criticality of this need may be seen from the fact that even with concerted and extensive attempts to meet the credit needs of the farmers for agricultural operations etc., informal agencies including money lenders are currently providing substantial portion of the total credit to this sector. Besides, the agricultural credit flows themselves are inadequate and the gross capital formation can be improved only if substantial amount of investment funds flow to the rural areas in the form of credit. Likewise, there is also a need to provide market information, extension services, marketing support and government and other public services to the people in a cost-effective manner. For achieving financial inclusion and economic growth, the ICT can play an important role by increasing effective access and improving delivery and governance in banking services. Against this background, the key issue is how technology can be harnessed for improving the efficacy of the credit delivery and for the minimization of the transaction costs involved, for ensuring that bank credit actually increases and promotes productive capital formation and investment in rural areas and helps address the critical problem of the rural-urban service divide.

MARKETING STRATEGY AND DYNAMICS OF RURAL ECONOMY

Problems, prospects and solutions to many of the issues mentioned have been researched and debated, primarily with a view to strengthening, revamping or re-orienting rural financial institutions. However, there is merit in viewing the problems of rural credit and rural banking in a wider context..

- Services sector is getting increasing importance in the rural areas also from coffee shops to cable television operators. Assessing and meeting of credit needs of this sector is important.
- The integration between rural and urban areas has increased significantly, with the result, mobility of labour, capital, products and even credit between the two is increasing.
- Commercialization of agriculture, particularly the increasing role of cash crops like cotton has resulted in substantial roles for suppliers' and buyers' credit. Similarly, the commission-agents advance money towards purchase of output from farmers, which amounts to providing credit and includes an element of forward trading. These arrangements are often entered into on a voluntary basis.
- Compared to cereal production, other food items, including poultry and fish are growing at a faster pace. In other words, rural agriculture is getting increasingly diversified in terms of products and processes.

- Areas where commercialization of agriculture has reached significant levels, the traditional landlord-based tenancy is replaced with commercial-based tenancy. Where intensive cultivation of cash crops such as cotton is called for, this has become quite common. However, the present credit and banking procedures do not cater to the working capital needs of such commercial based tenancy relationship.
- The diversified activities, and large work force in rural areas, there is increasing recourse to multiple occupations to earn a decent livelihood. For example, a small farmer is also a petty trader and may also be a satellite based cable television operator in the village. The end use specification and monitoring of credit is more difficult in such circumstances.
- The extent employment and indeed incomes could be seasonal, especially for agricultural labour, there is reason to seek and obtain consumption loans. Such assurance is possible with prosperity in rural employment. Present arrangements in formal credit markets are inadequate to meet such requirements.

MARKETING STRATEGY AND RURAL CREDIT MARKETS: NEW REALITIES

As mentioned earlier in the approach to rural banking, the basic thrust of our policy has been to promote institutional credit and eliminate or ignore informal finance. However, in reality, while formal credit has expanded its share, informal finance continues to be significant. The idea of promotion of Self-Help Groups and micro financing is an indirect admission of necessity of informal finance. The future of rural banking cannot be appreciated without fully understanding both formal and informal rural credit markets, especially their linkages. Since in the earlier sections, organization and functioning of the formal credit system in the rural areas have been explained, in this section nature of informal markets and the linkages will be explored.

OBJECTIVES

- To study about the moratorium on loans taken by farmer.
- To study on the perspectives of Pricing marketing of the bank
- To study comparative marketing of rural and urban banking sector.
- To study about Sales Promotions used by banker .
- To study on the impactful tendency on revitalizing rural banking.

STATEMENT OF THE PROBLEM

1. Haste and Lack of Co-ordination in Branch Expansion:

- Haste in branch expansion programme in many cases has resulted in lopsidedness due to lack of co-ordination. In several cases, it could not be ensured that the branches of the RRBs are opened at centres where no commercial or co-operative banking facilities were provided.

2. Difficulties in Deposit Mobilisation

The RRBs encountered a number of practical difficulties in deposit mobilisation. On account of their restrictive lending policy which excludes richer sections of the village society, these potential depositors show least interest in depositing their money with these banks.

3. Constraints in Deposit Mobilisation

The RRBs exclude the richer sections of the village society in providing direct financial assistance. These sections have potential savings to deposit. But, they are least interested in depositing them with the RRBs in view of the restrictive credit policy of these banks. Further, state and local governments and their agencies also have not co-operated much by maintaining their deposit accounts with the RRBs.

4. Slow Progress in Lending Activity

The RRBs' pace of growth in loan business is slow. For this the following reasons may be given: (i) There have been limited scope for direct lending by RRBs in their fields of operations; (ii) It is always difficult to identify the potential small borrowers and the bank staff have been required to make special and sincere efforts in this regard; (iii) Most of the small borrowers do not like the bank formalities and prefer to borrow from the informal/indigenous sources of finance, such as money-lenders; (iv) The anomalies in the Differential Interest Rate (DIR) Scheme also posed a special problem to the RRBs. While the RRBs charge 14 per cent interest, the commercial banks charge only 4 per cent under the DIR Scheme in rural areas.

5. Urban-orientation of staff

A crucial practical difficulty experienced in their working by the RRBs is the urban orientation of their staff which is rarely inclined to serve in rural areas. There is no true local involvement of the bank staff in the village where they serve.

6. Procedural rigidities

The RRBs follow the procedures of the scheduled commercial banks in the matter of deposits and advancing loans which are highly complicated and time-consuming from the villagers' point of view. The rural borrowers always appreciate informal ways and simple procedures as have been followed by the money-lenders and the indigenous bankers.

RESEARCH GAP

This investigation gives an extension of information on the field of turn around coordinations furthermore figures out where crevices stay in the writing. In the wake of checking on the writing and deciding the ebb and flow condition of research and distinguishing conceivable crevices, the analyst used to decide the positioned key variables to the invert coordinations prepare.

STATISTICAL ANALYSIS ON RURAL BANKING PERSPECTIVES TOWARDS VIRUTHASALAM SECTOR

Table 1
Moratorium on loans taken by farmer

	Rural Bank	Urban Bank
To great extent	64	0
To some extent	26	72
To very little extent	10	28
total	100	100%

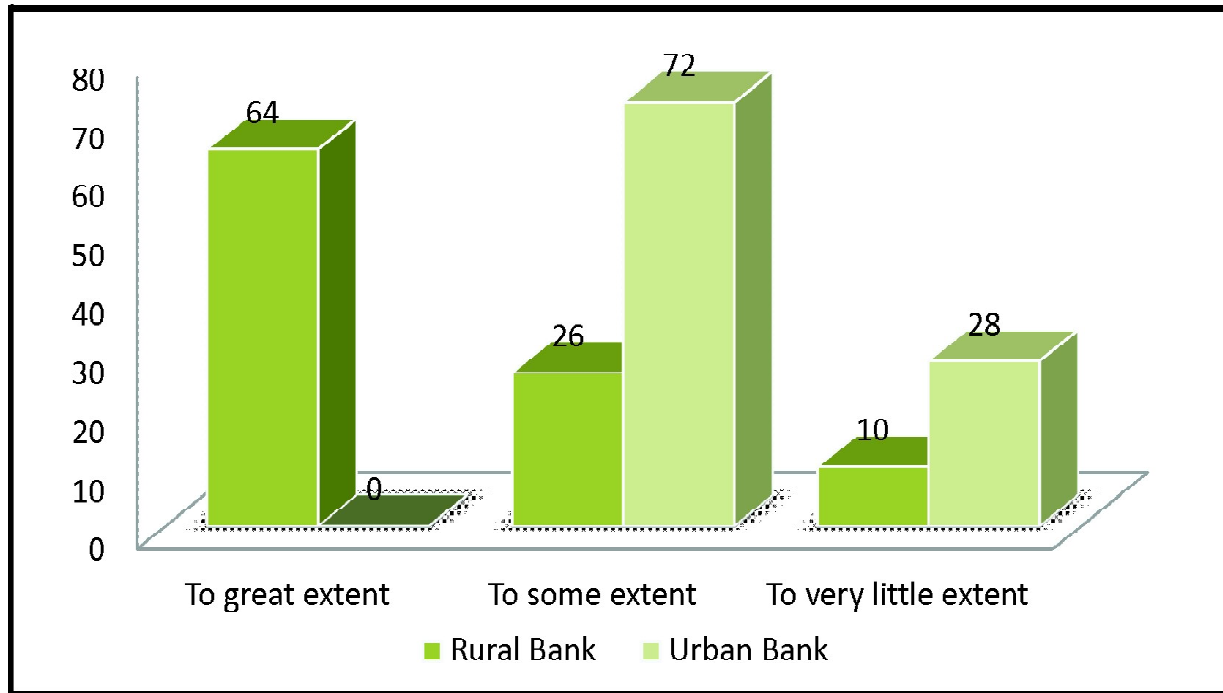


Chart 1: Moratorium on loans taken by farmer

MORATORIUM ON LOANS TAKEN BY FARMER

- 44% of the respondent of rural bank says that Central Scheme to provide Interest Subsidy for the period of moratorium on loans taken by farmer from economically weaker sections from schedule banks under the loan scheme of the Indian Banks Association to great extent where as none of the respondent of Urban Bank says that Central Scheme to provide Interest Subsidy for the period of moratorium on loans taken by farmer from economically weaker sections from schedule banks under the loan scheme of the Indian Banks Association to great extent.
- 26% of the respondent of rural bank says that Central Scheme to provide Interest Subsidy for the period of moratorium on loans taken by farmer from economically weaker sections from schedule banks under the loan scheme of the Indian Banks Association to great extent where as 72% of the respondent of Urban Bank says that Central Scheme to provide Interest Subsidy for the period of moratorium on loans taken by farmer from economically weaker sections from schedule banks under the loan scheme of the Indian Banks Association to some extend.
- 10% of the respondent of rural bank says that Central Scheme to provide Interest Subsidy for the period of moratorium on loans taken by farmer from economically weaker sections from schedule banks under the loan scheme of the Indian Banks Association to great extend to very little great extend where as 28% of the respondent of Urban Bank says that Central Scheme to provide Interest Subsidy for the period of moratorium on loans taken by farmer from economically weaker sections from schedule banks under the loan scheme of the Indian Banks Association to very little extend.

SALES PROMOTIONS USED BY BANKER

Table 2
Sales Promotions used by banker

	<i>Rural Bank</i>	<i>Urban Bank</i>
Completely	90	59
Partially	10	30
Nil	0	11
total	100	100%

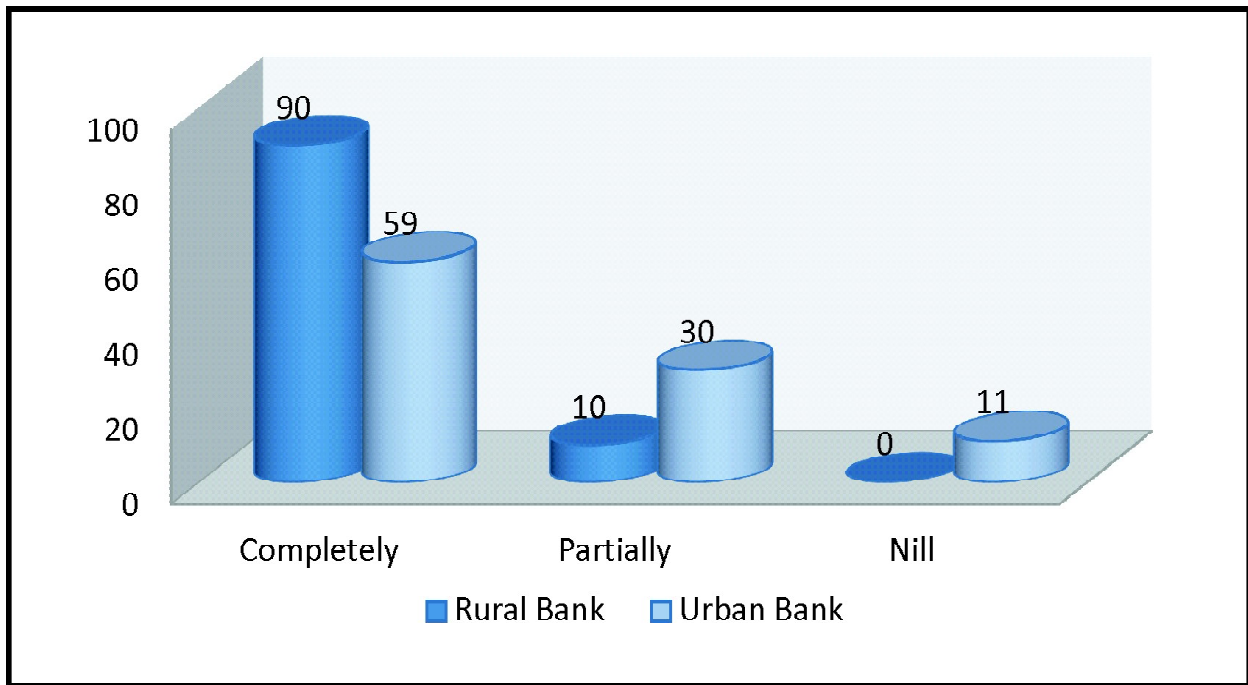


Chart 2: Sales Promotions used by banker

From the above data it is evident that among the respondent,

- 90% of the respondent of Rural Bank says that Sales Promotions have been used by banker to increase sales in the short term where as 59% of the respondent of Urban Bank says that Sales Promotions have been used by banker to increase sales in the short term.
- 10% of the respondent of rural bank says that Sales Promotions have been used by banker to increase sales in the short term where as 30% of the respondent of Urban Bank says that Sales Promotions have been used by banker to increase sales in the short term.
- No respondent of rural bank says that Sales Promotions have been used by banker to increase sales in the short term is nill where as 11% of the respondent of Urban Bank says that Sales Promotions have been used by banker to increase sales in the short term is nill

LOAN GATEWAY OF THE BANK

Table 3
Loan gateway of the bank

	<i>Rural Bank</i>	<i>Urban Bank</i>
Yes	87	62
No	13	38
total	100	100%

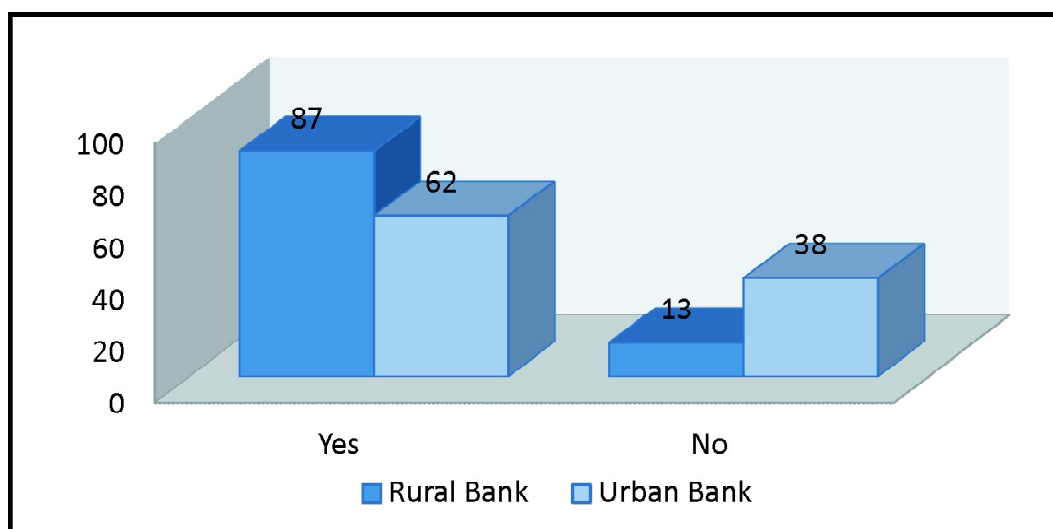


Chart 3: Loan gateway of the bank

- 87% of the respondent of Rural Bank says that Multiple ‘ basic’ financial services and loan gateway is product marketing of the bank where as 62% of the respondent of Urban Bank also says that Multiple ‘ basic’ financial services and loan gateway is product marketing of the bank.
- 13% of the respondent of Rural Bank sasys that Multiple ‘ basic’ financial services and loan gateway is product marketing of the bank where as 38% of the respondent of Urban Bank also says that Multiple ‘basic’ financial services and loan gateway is product marketing of the bank.

PRICING MARKETING OF THE BANK

Table 4
Pricing marketing of the bank

	<i>Rural Bank</i>	<i>Urban Bank</i>
Yes	11	13
No	89	87
total	100	100%

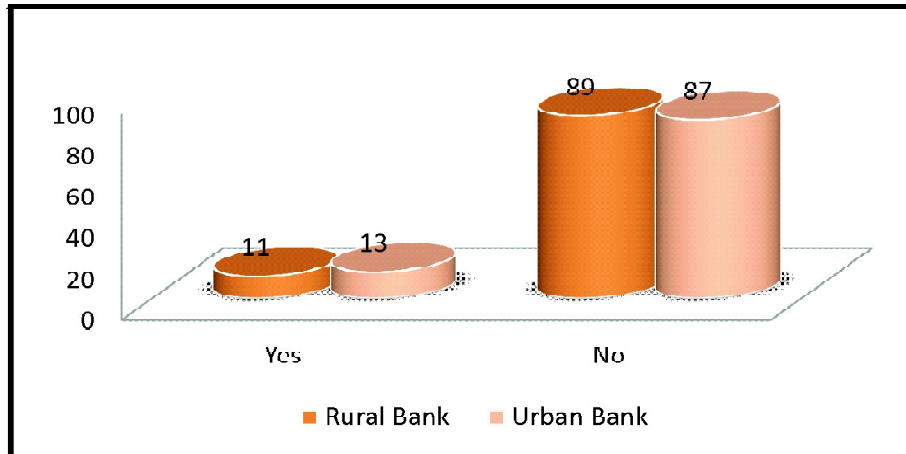


Chart 4: Pricing marketing of the bank

- 11% of the respondent of rural bank says that Devised to ensure usage as well as profitability Quantity discounts, and ease in payment modes is pricing marketing of the bank. whereas 13% of the respondent of Urban Bank also says that Devised to ensure usage as well as profitability Quantity discounts, and ease in payment modes is pricing marketing of the bank..
- 89% of the respondent of rural bank says that Devised to ensure usage as well as profitability Quantity discounts, and ease in payment modes is pricing marketing of the bank. whereas 87% of the respondent of Urban Bank also says that Devised to ensure usage as well as profitability Quantity discounts, and ease in payment modes is pricing marketing of the bank.

DIFFERENT SERVICES OF THE BANK

Table 5
Different services of the bank

	Rural Bank	Urban Bank
Traditional	98	91
modern	2	9
total	100	100%

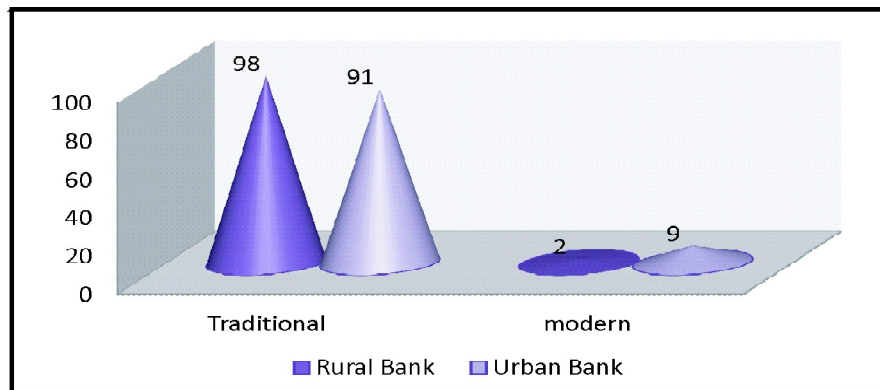


Chart 5: different services of the bank

- 98% of the respondent of rural bank says that Comprehensive offering of different services is placement marketing of the bank where as 91% of the respondent of Urban Bank says that Comprehensive offering of different services is placement marketing of the bank.
- 2% of the respondent of rural bank says that Comprehensive offering of different services is placement marketing of the bank where as 9% of the respondent of Urban Bank says that Comprehensive offering of different services is placement marketing of the bank.

NGO'S TO DEVELOPMENT KNOWLEDGE MARKETING OF THE BANK

Table 6
NGO's to development Knowledge marketing of the bank

	<i>Rural Bank</i>	<i>Urban Bank</i>
Yes	33	81
No	67	19
total	100	100%

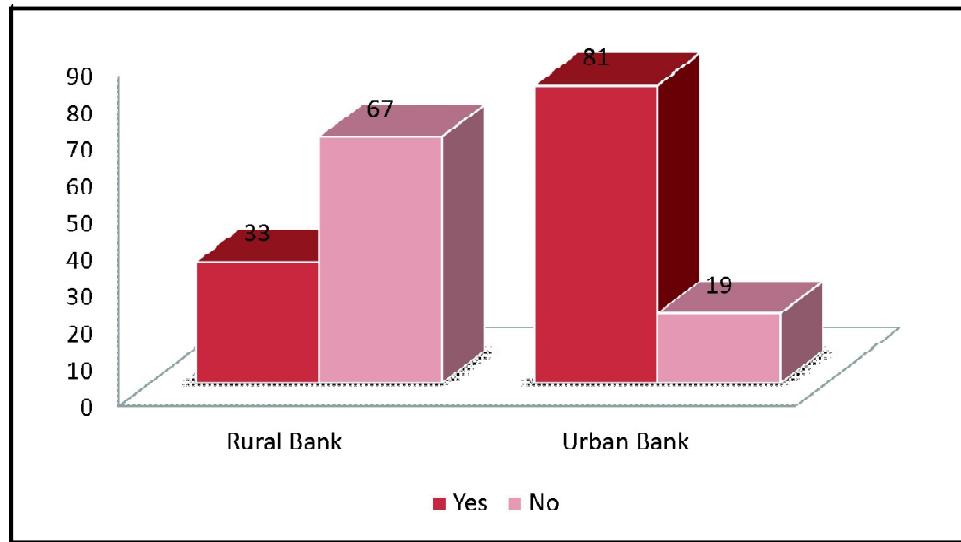


Chart 6: NGO's to development Knowledge marketing of the bank

From the above data it is evident that among the respondent,

- 33% of the respondent of RURAL BANK says that Collaborating with NGO's to development Knowledge marketing of the bank where as 81% of the respondent of Urban Bank also says that Collaborating with NGO's to development Knowledge marketing of the bank.
- 67% of the respondent of RURAL BANK says that Collaborating with NGO's to development Knowledge marketing of the bank where as 19% of the respondent of Urban Bank says Collaborating with NGO's to development Knowledge marketing of the bank.

REVITALIZING RURAL BANKS

Since RRBs have low cost of administration, they should be revitalized as they have the potential to serve the credit needs of rural people in the best way. - Rural credit market should be restructured and renovated to suit the specific requirements of the people. Micro credit approach is an effective tool for resolving issues related to rural credit such as non recovery of loans and for bringing more number of rural poor into the institutional credit net. Though micro financial institutions play important role in rural banking, still the role played by the commercial banks, cooperative banks and RRBs cannot be undermined. - Norms related to priority sector lending must be enforced meticulously so that people belonging to poor strata of the society can get rid of money lenders and other informal sources of credit which are highly exploitative in nature. Penalties must be imposed on the banks which fail to meet their targets regarding priority sector lending programs. - Problem of chronic rural indebtedness cannot be solved merely by changing banking policies. Agrarian reforms are required which require government intervention. - No-frills accounts should be promoted through various marketing strategies. It will create demand for these accounts among rural poor and result in greater financial inclusion. RBI must instruct banks including foreign banks operating in India to promote no-frills account as a part of their social responsibility. - Banks should customize their products to serve the people living in villages as most of the banking products have been designed to serve urban and metro customers. - For rural banking, public – private partnership can produce wonderful results. ICICI Bank's efforts in this area have already attracted the attention of policy makers and banking experts.

SUGGESTIONS

- The customer education should be provided with proper information about the services of the bank.
- Bank must be placed at proper location so that customers can easily reach their. This will help bank is maintaining good relationship with customers.
- The services should be made available at every time to meet expectations of customers.
- Grievances of customers must be handled in a proper way and within the shorter period of time by doing this the image of bank adopts in the eyes of customers.
- The no. of ATM machines should be increased and it should be located at proper places and at proper distances it will help bank do interact with maximum customers.
- Parking facility is the biggest problem of customers. Proper parking facility should be made available which will reduce the problems of customers to some extend.
- The bank must be filled with modern technology so as to provide service within the short time.

CONCLUSION

RRBs' performance in respect of some important indicators was certainly better than that of commercial banks or even cooperatives. RRBs have also performed better in terms of providing loans to small and retail traders and petty non-farm rural activities. In recent years, they have taken a leading role in financing Self-Help Groups (SHGs) and other micro-credit institutions and linking such groups with the formal credit sector.

RRBs should really be strengthened and provided with more resources with which they can undertake more of these important activities. And most certainly they should be kept apart from a profit-oriented corporate motivation that would reduce their capacity to provide much needed financial services to the rural areas, including to agriculture. Ideally, the best use of the resources raised by RRBs through deposits would be through extensive cross-subsidisation. This, in turn, really requires an apex body that would cover and oversee all the RRBs, something like a National Rural Bank of India (NRBI).

The number of rural branches should be increased rather than reduced; they should be encouraged to develop more sophisticated methods of credit delivery to meet the changing needs of farming; and most of all, there should be greater coordination between district planning authorities, Panchayati raj institutions and the banks operating in rural areas. Only then will the RRBs fulfill the promise that is so essential for rural development.

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