

# PROBLEMS AND PROSPECTS OF BANKING SERVICES IN RURAL UTTARAKHAND

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**Abstract:** Rural development occupies a significant place in the overall economic development of a country. Gandhi ji said —India lives in Villages. He stressed a rural character of economy and the need for re-generation of rural life. Rural sector is the most important source of national income in India. It affects directly or indirectly almost all the economic activities in the country. Despite significant role of the rural sector in the country's economy rural sector remains to be neglected. The rural people have been suffering socially and economically, and little effort has been made for their raise their standard. Availability of banking and credit facilities may not be a sufficient condition for the development of people but certainly an essential condition without which development cannot take place. In last few decades a number of bank branches have increased in India. A substantial increase has been attained by the banking of unbanked population in rural areas. In India the prime objective is rural development with aim to expand the branch placement in unbanked locations. The next objective is to skew lending towards priority sectors. Policies were framed, by policy makers viz. Indian Government and Reserve bank of India, to change the composition of credit to serve those section of society which were not covered in the past by formal financing. Though the outreach of banks in the state has been restricted for some reasons but focus and efforts of government initiatives has shown a remarkable progress in the state by bringing banking facilities to the door step of neglected rural households and the contribution made by the banks to its success. However, much still needs to be done to improve the lot of rural people.

**Key Words:** Financial services, C:D ratio, Financial products, Financial awareness, Financial literacy, Financial inclusion, Networking, Policy makers.

## Introduction

### About Uttarakhand:

The northern state of Uttarakhand generally known as “DEVBHOOMI” or “THE ABODE OF GODS” is predominantly a mountain state with awe inspiring scenic beauty. Apart from its natural beauty this Himalayan State has been a major pilgrimage centre for centuries. After rigorous efforts state has found success in transforming itself from a mostly agrarian economy into a hub of industrial activity, and services supported by the focused policies of the state government.

Uttarakhand vision for development lays special emphasis on building a stronger infrastructure which will not only result in social upliftment of its population but will also ensure that the regional development may be more balanced, and benefits will be reaped by all sections of society. The state has put in place specialised infrastructure for the development of industries in the priority sector. The state agricultural policy of Uttarakhand is very conducive. A large number of flowers, medicinal herbs, aromatic plants and seasonal fruits, makes the state one of the best locations to set up agro and fruit processing industry units.

A substantial part of the revenue of the government is generated from the rural sector. Despite significant role of the rural sector in the state's economy, rural sector remains neglected. The magnitude of illiteracy, poverty and ill health is higher in rural areas than in urban areas. With a population of 10.16 million in 2011, Uttarakhand accounts for 0.82 per cent of the Indian population. The state has achieved commendable success in attaining relatively high level of literacy in comparison to many regions of the country, 79.63 per cent of population of the state is literate and thus it ranked at 9th place in India. There is a big gender gap in literacy levels in the state—nearly 70.70 per cent females are literate as compared to over 88.33 per cent males.

### Banking Network in Uttarakhand

The commercial banks, cooperative banks and Regional Rural Banks are main providers of credit in the state under multi agency approach. In Uttarakhand, as on 31<sup>st</sup> of March 2017 there stood 21 public sector banks with a net work of 1507 branches out of which 682 are in rural areas having deposits of Rs.86360/- crores, advances of Rs.40365/- crores and credit to deposit (C:D) ratio of 47. There are 13 private sector banks having total 205 branches out of which 48 are in rural areas, with deposits of Rs.10996/- crores and advances of Rs.8183/-crores, C:D ratio stood at 74, the highest among all the banks. Regional Rural Banks are having 287 branches in the state out of which 230 are located in rural areas showing deposit of Rs.4145/- corers, advances of Rs.1988/- crores and C:D ratio is 48. The cooperatives banks are marking their presence with 270 branches out of which 156 serves rural areas with deposit of Rs.7762/- crore, advances of Rs.4799/- crores and C:D ratio of 62.

**Table 1: Banks and Their Branches in Uttarakhand**

District	No.of Villages	Commercial Banks	RRBs	Cooperative Banks	Private Bank	Total
Dehradun	718	423	44	29	52	548
Uttarkashi	674	39	07	16	01	63
Haridwar	635	207	16	18	24	265
Tehri	1825	78	20	32	03	133

<b>Pauri</b>	3137	120	41	23	11	195
<b>Chamoli</b>	1214	57	13	20	02	92
<b>Rudraprayag</b>	530	35	08	11	01	55
<b>Amora</b>	2296	89	29	21	07	146
<b>Bageshwar</b>	856	28	14	05	03	50
<b>Pithoragarh</b>	1579	52	30	18	04	104
<b>Champawat</b>	638	31	08	08	07	54
<b>Nainital</b>	1075	138	37	38	32	245
<b>U.S. Nagar</b>	655	210	20	31	58	319

Source: SLBC Agenda Book, Uttarakhand and Annual Credit Plan 2017-2018:

### Literature Review

On the one hand government is aiming at providing banking services like saving account, credit facility, and insurance product to weaker sections of the society, on the other; it has the objective of ensuring financial services like-banking, insurance and capital market services and adequate credit to every section of the society as well as of the economy. Emphasis is given to extending financial services to low-income households as the poor lack the education and knowledge about financial services that are available to them. Although access to banking services is improving but still there are multiple factors which have affected the access to financial services.

Global Findex Report 2014 has analyzed the self-reported barriers for accessing account in financial institutions are- Religious reasons, Lack of trust, Cannot get an account, Lack of necessary documentation, Distance of financial institutions, Expensive accounts, Do not need an account, Not enough money. As per the report 59% of adults were identified without an account and the most common reason is lack of money.

Varun Kesavan(2016) highlighted the factors that are affecting access to financial services are psychological and cultural barriers, legal identity, income level, procedural formalities, limited literacy, place of living, terms and conditions, social security payments, Occupation types and product attractiveness.

Minaxi Rani (2015) investigated the availability of banking and financial services in rural areas stated out that financial illiteracy, lack of awareness about the product, failure in reaching the poor, various regulations, financial literacy, income level, trust and non-availability of bank branches in rural areas are challenges of financial inclusion faced by banks. Financial services have been inaccessible for the rural people mainly due to the distance from the banks and lack of awareness about financial products and services.

Savita Shankar (2013) reveals that negative experiences or negative perception of financial institutions makes the rural people to get mistrust of banks and which in turn leads to self-exclusion from the formal financial institutions there is lack of trust among the rural people in the banking systems. She further states that states that financial literacy is said to be one of the demand side factor which is a precondition for the first time users to access financial services. Banks are required by regulators to conduct sufficient identity checks before opening accounts. These regulations sometimes result in lack of access of genuine customers. She narrated that lack of inappropriate products is an important supply side barrier. Certain terms and conditions of financial products like maintain minimum balance in the account and accounts closed by banks due to infrequency in use does not suit for the low income group people.

Priya Naik (2013) analysed that inappropriate products and processes are said to be a supply side constraints. Access to financial products are constrained by certain factors like lack of awareness about the products, the financial products are not convenient, flexible and low quality. The main reason for the financial exclusion from the supply side is documentation procedures and unsuitable financial products.

Gadamsetty Sai Arun revealed that people who live in underdeveloped areas find it very difficult to reach nearest bank due to transportation cost and they lost their one day wages to reach the bank. Transaction cost is the barrier for the low income group household since they are more resource constrained. This income group either spends more time in travelling to the bank or spend high transaction cost for accessing financial services from the banks.

### Objectives and Research Methodology

The purpose of the study is to evaluate the problems and prospects of banking services in rural area of Uttarakhand state. Primary data has been collected through structured questionnaire comprising five hundred respondents of rural areas situated in fifty two villages of eight blocks falling under seven districts of Uttarakhand (Table 2).The collected data was tabulated and subject to analysis using standard statistical measures such as averages, percentages and ratios (Table 3). Secondary data pertaining to status of banks were reports from Lead Bank, State Annual Credit Plan of SLBC, Agenda Book of SLBC, Handbook of statistics on Indian Economy and various government reports of RBI.

### Area of Study

**Table 2: Selection of villages- Sampling Method**

<b>Division</b>	<b>Sr.N.</b>	<b>Selected Districts</b>	<b>Block in District</b>	<b>Total Village in the block</b>	<b>Total Village Selected</b>
<b>Kumaun</b>	1	Nainital	Ramghar	130	4
			Dhari	157	05
	2	U. S. Nagar	Rudrapur	288	09
	3	Bageshwar	Bageshwar	70	10
	4	Almora	Ranikhet	263	10
	5	Champawat	Pati	141	09
	6	Pithoragarh	Dharchula	80	10

Garhrwal	7	Chamoli	Ukhimath	145	05
<b>Total</b>					<b>62</b>

**Table 3: Problem faced by the number of respondents in availing bank services**

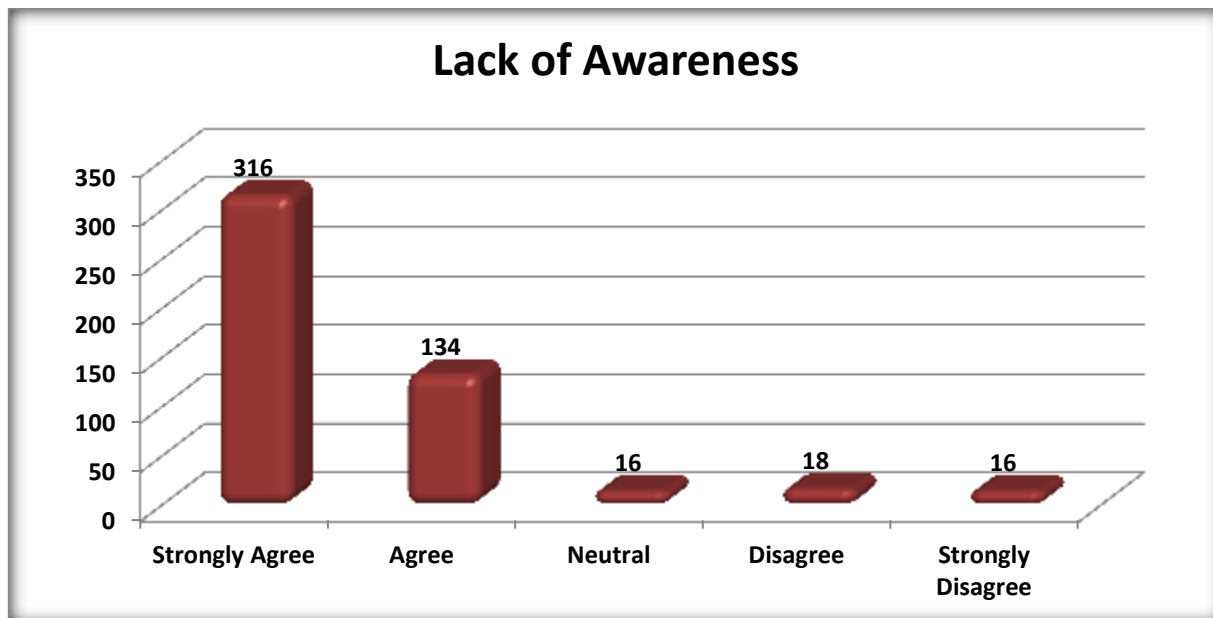
S.no.	Problems faced by respondents in availing of banking services	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Lack of awareness	316	134	16	18	16
2	Lack of availability	181	235	34	42	8
3	Poor proximity to bank	275	133	22	36	34
4	Lack of co-operation from bankers	72	253	71	16	88
5	No proper guidance	74	130	82	188	26
6	No regularity in functioning	97	100	191	24	88
7	No trained staff	22	102	92	236	48
8	Poor usage of the service in bank	124	243	45	30	58
9	No proper networking	163	228	51	32	26
10	Lack of uniformity	228	104	82	52	34
11	Hidden cost	48	70	171	175	36
12	Poor governance of complaint	312	56	56	24	52
13	Limited service offered	42	100	66	242	50
14	Poor customer response	143	71	60	158	68
15	Autocratic behaviour	231	83	76	26	84
16	Poor CRM	70	99	140	113	78
17	Lack of transparency	114	70	169	101	46
18	Poor time management	283	66	73	8	70

Keeping in view the objective of study, though there are several problems in banking services that were revealed during the research. Out of which following are the major ones that have been the focus of this study:-

1. Lack of Awareness of Financial Products.
2. Poor Governance of Complaint.
3. Poor Time Management.
4. Poor Proximity to Bank.
5. No Proper Networking.

**1. Lack of Awareness**

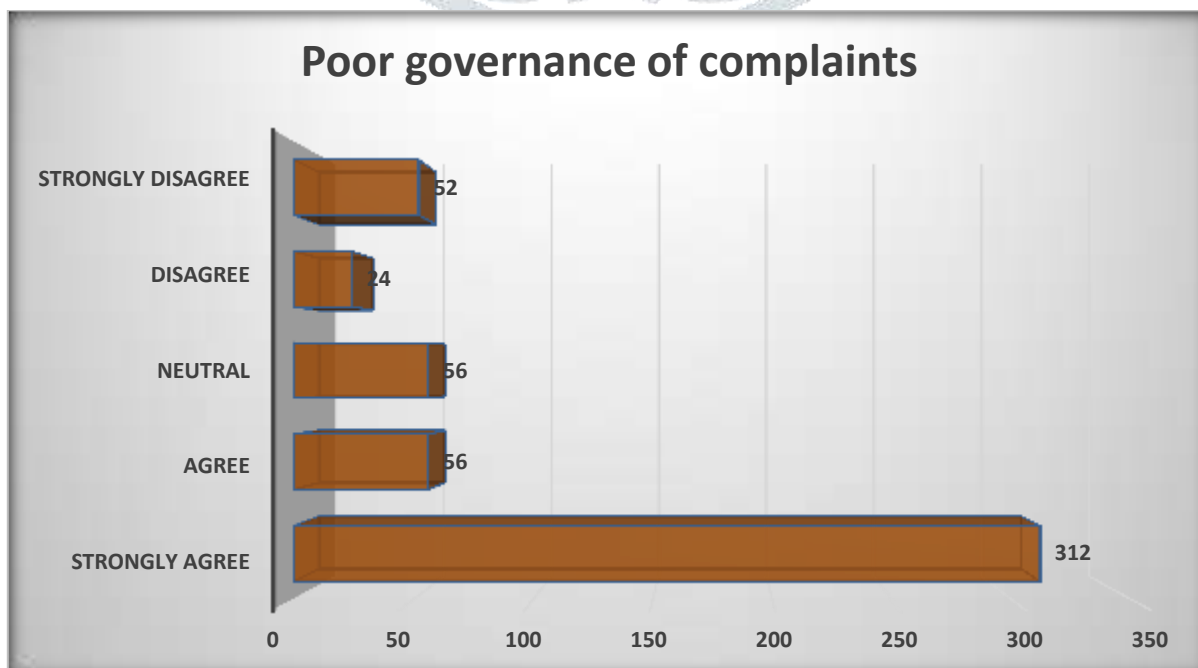
More than 63% of respondents (fig.1) strongly agreed that lack of awareness prevails regarding banking products that are available for them. In present scenario government is launching various innovative products for the development of rural population which are implemented through banking channels are not being utilised to the optimum either because of lack of awareness and knowledge possessed by the rural people or due to laxity in marketing of new products by the banks in the rural sector. Even the village development officers seem not fully updated about such recent products. If people have proper financial literacy and awareness, it boosts up the use of many financial products by different economic agents like Business Correspondents, NGOs and MFIs and etc. Even though banks have some suitable financial products for the poor people, due to their lack of knowledge and literacy level makes them an incorrect understanding of the products and thus opposed to use them.



*Fig 1: lack of awareness in availing of bank services*

**2. Poor Governance of Complaint**

Almost 63% of respondents (fig. 2) strongly agree that there is poor governance of complaint persists in the banking services. Complaints are not resolved either promptly or not at all. A significant initiative in the area of consumer education and protection was the introduction of the Charter of Customer Rights. During 2016-17, all banks confirmed that their customer service policies were accordingly fine-tuned to incorporate the principles of the Charter of Customer Rights. The Reserve Bank also reviewed and standardised 10 most commonly used forms by bank customers, in consultation with the Indian Banks' Association (IBA). In determining customer liability in unauthorised electronic banking transactions, final guidelines on customer protection – limiting the liability of customers, issued on July 6, 2017. Since July 1, 2017 incorporating changes relating to the pecuniary jurisdiction of the Banking Ombudsman (BO) compensation and introduction of additional grounds of complaint on mis-selling and electronic and mobile banking. BO is the autonomous body to resolve complaints and protect customers rights, The Reserve Bank also opened and operationalised five new offices of the BO in Dehradun, Jammu, Ranchi, Raipur and an additional office in New Delhi. The total number of BO offices has now reached 20.

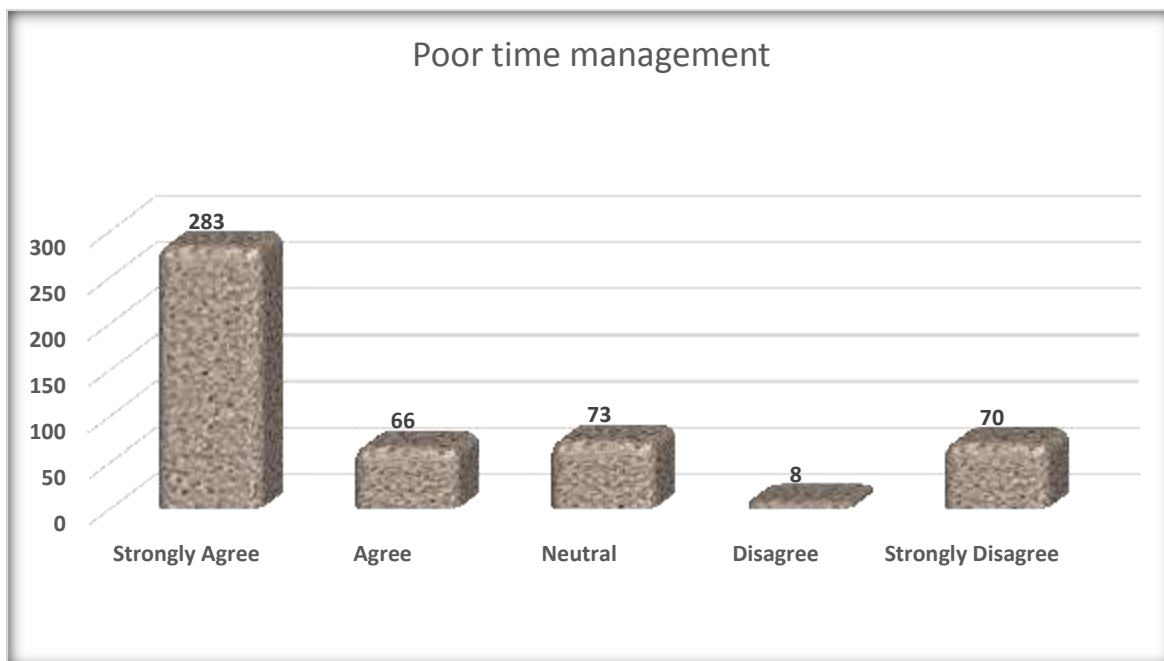


*Fig 2: Poor governance of complaints in the bank in availing bank services*

**3. Poor Time Management**

56.6% of respondents (Fig.3) are of the opinion that there is poor time management in providing banking services. Though there is standard time frame work is prescribed by the Reserve bank of India that the banks are to follow and are displayed in the branch premises for each and every kind of services that are rendered by the banks to their customers. It is desirable that given time duration should be achieved by the rural area banks since there is comparatively less number of walk-in-customers in such branches as compared to banks located in like semi-urban or urban sectors.

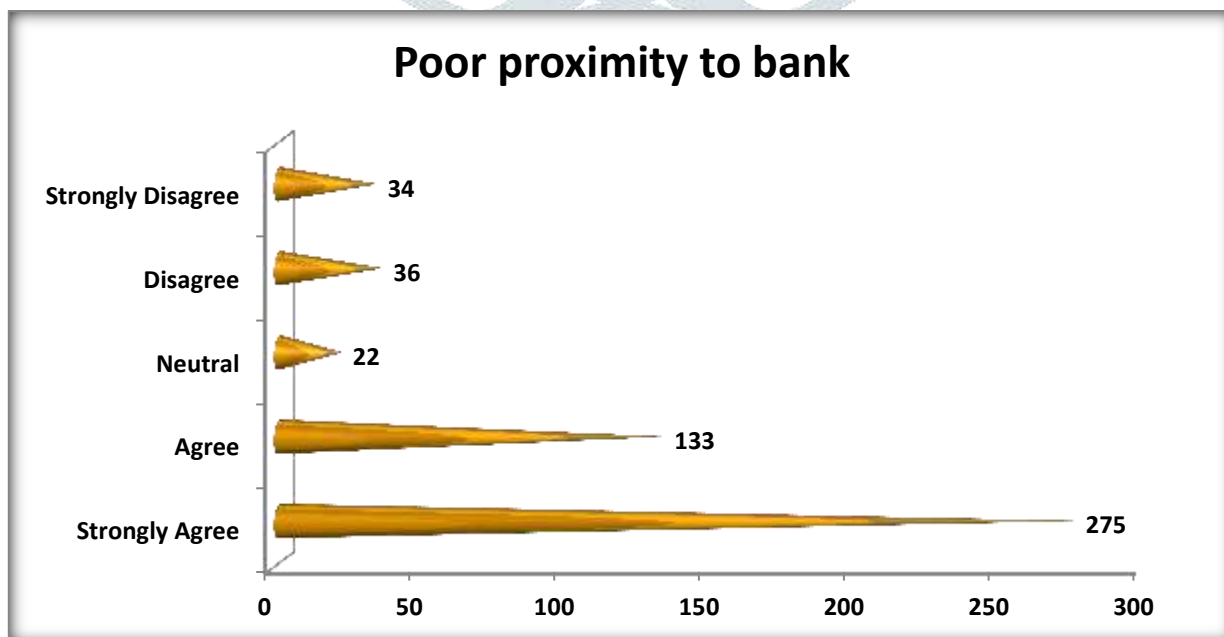
Recently Punjab National Bank has floated a slogan called ‘PARIVARTAN’ in which ‘T’ stands for ‘Turn Around Time’ that reflects in what time a proposal has been disposed off. It is an attempt to improve time management in banks services.



*Fig 3: Poor time management in availing bank services*

**4. Poor Proximity to Bank**

55% of the respondents (fig. 4) strongly believe that proximity of the banks in the rural area plays a vital role in availing bank services to carter the need of the rural population. As per study it was found that most of commercial banks operate only in commercial areas and these banks set their branches in profitable areas. Therefore population lives in rural areas find it difficult to access the financial services. However effective distance is as much about transportation infrastructure as physical distance, factors like density of population, rural and remote areas, mobility of the population which means highly mobile people with no fixed or formal address also affect access to these services. Transaction cost is the barrier for the low income group household because either they spends more time in travelling to the bank or spend high transaction cost for accessing financial services from the banks. The banks have failed to handle customers grievances efficiently and effectively. The responsibility is now with the banks to restore and rebuild faith and trust in banks so that development issues may be expedited in close cooperation with the people.



*Fig 4: Poor proximity to bank in availing bank services*

### 5. No proper Networking

In the present banking scenario of globalisation where entire banking industry relies on information technology, an uninterrupted and proper networking is the life blood of each bank in order to extend smooth customer services that prove vital for the existence of each and every bank. It is unfortunate, while rural areas are constantly struggling to keep pace with the other sectors, the most crucial factor of networking remain a severe problem in the rural areas hence jeopardise the basic but important financial services. The problem of poor networking in banking services is reflected in figure 5 wherein 79% of the respondents feel that networking is poor (46% of respondents strongly agree and 33% agree).

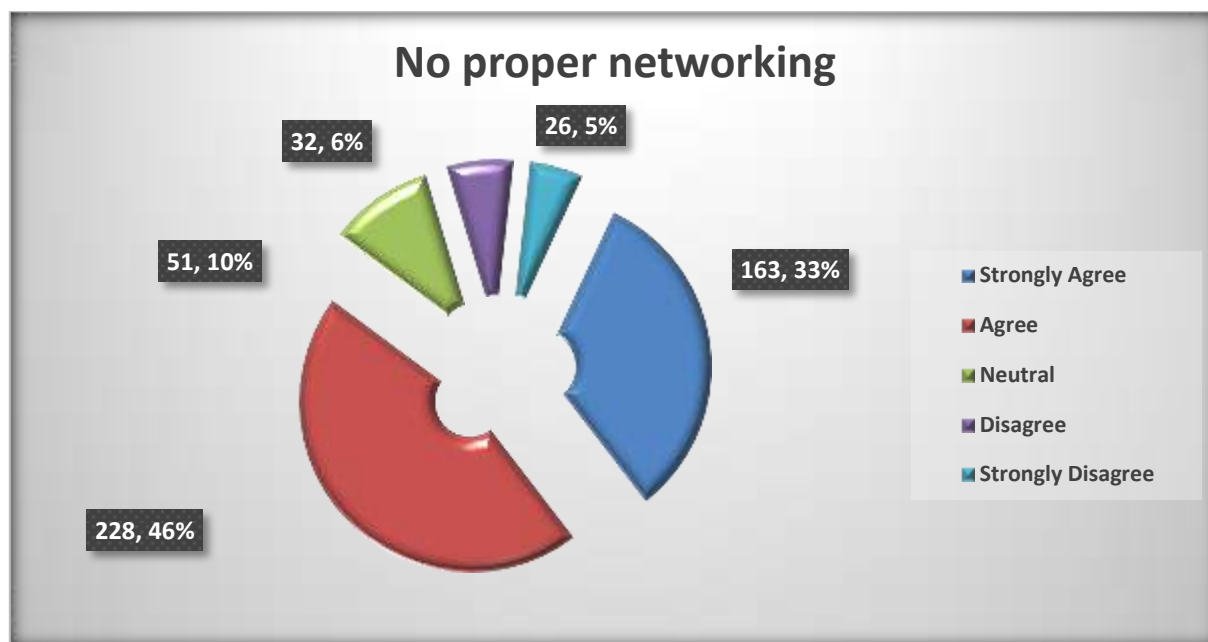


Fig 5: No proper networking in availing bank services

### Conclusion

Banks play a major role in the development of an economy. Traditionally, banks have played the role of intermediaries and facilitated the movement of money required in important sectors of the economy. However, priority sector lending has always been a major concern in India. Credit flow to the starving priority sector, especially in rural areas has always been inadequate. The government of India initiative to motivate and compel banks to cater to the neglected sectors and regions is worthy of admiration. However, the impact of these initiatives has not been upto expectations. This study has identified five areas of concern that require immediate attention to enable banks to play a more active and meaningful role in rural areas.

Lack of awareness among the rural populace is perhaps one of the most important reasons for the dismal performance of government schemes at the grass root levels. Policies and programs can only be effective if they are properly communicated to the stakeholders so that the benefits accrue to the target population. Government and banks have failed to create and raise awareness among people. Consequently, most of them are not even aware about such programs thereby, severely restricting flow of credit to these sectors.

Banking services must be streamlined to deliver services in a timely manner. Bank branches are not always located at convenient distances from the customer's place of residence. Banks need to urgently refine and improve their services. Bankers have their own reasons for slow delivery of services. The reasons are not completely unjustified. Internet connectivity in remote areas is often disrupted due to power failures and is very slow. Banking business is adversely affected due to poor connectivity. This is a major problem that hinders banks from delivering timely services in an efficient manner.

If all the aforesaid issues are addressed banks can play a more proactive role in the development process in rural Uttarakhand.

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